

# Television prices may go sky high, despite the cloudy picture

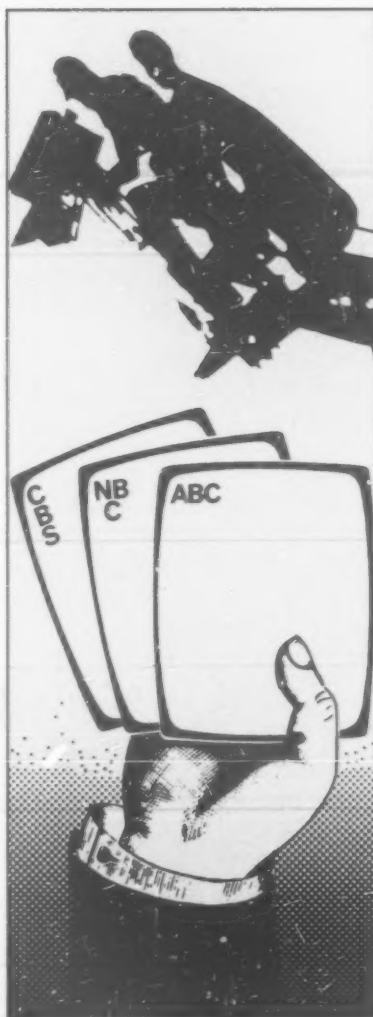
**T**he scenario for television pricing, suggest many, should go like this: Because of a shakier than usual 1985-86 prime time network lineup, audience erosion, uncertainty about the overall economy, a lack of major, new advertisers entering the marketplace and the unbridled growth of syndication, network tv costs will be kept down in the upcoming year.

That would be a very pretty picture, agree industry practitioners . . . too bad it won't get drawn. These cynics say that despite all the uncertainties that are part of negotiating network tv ad rates, the medium still retains its clout with marketers who want and need its enormous reach. In other words, despite what you may hear, tv is very much in demand.

Yet just where tv costs will go in 1986 is still another picture. In *Decisions*' survey on anticipated cost increases for 1986, media directors were planning on 8.3% CPM increases for network prime time and 8.8% CPM upticks in daytime. What they will wind up with, however, may be an entirely different matter.

## Network outlook

Caution is the underlying theme in discussions with media directors regarding network television costs for 1986. "Advertisers are a little cautious



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about the economy now, and are waiting until their own third-quarter sales are known before plunking down fourth-quarter scatter commitments," advises Jack Otter, McCann-Erickson's senior vice president and director of national broadcast.

Otter's comments typify what seems to be happening at most shops as they get ready to tackle the fourth-quarter scatter market. What happens beyond that period — typically a volatile quarter because many clients' fiscal budgets coincide with the calendar year ending December 31 — is not yet uppermost in anyone's minds.

If advertisers are urging wariness, the networks are, not surprisingly, pushing optimism. They're still gloating over the \$2.5 billion they just wrote on the upfront books this past season and are projecting revenues to grow another 9%-10% in 1986.

The majority of media directors, however, point to a later than usual start to fourth-quarter network scatter activity, which may signal that things indeed are slowing down. On the other side, the networks attribute the slow start to the fact that advertisers earmarked heftier portions of their budgets in upfront than anticipated, rather than waiting to take their chances in a hard-to-read scatter market.

As of late August, most buyers were

not yet active in the scatter marketplace and were describing a pretty tame scene. Conditions seem favorable to clients, with demand not outpacing the supply of inventory. Hence, cost increases for scatter time during the last quarter should be flat to slightly over upfront prices.

The networks, of course, remain bullish in both their long and short term outlooks. However, for such a self-described robust marketplace, network executives are unusually reticent to give details about this buying season.

At NBC, which is enjoying strong

about \$700 million in sales.

Jerry Dominus, vice president of sales for the CBS Television Network, is optimistic when assessing the fourth-quarter market. "The quarter is pretty healthy," he allows, but "there are weak categories." He quickly adds that sales to soft drink and fast food marketers are up, and "the pace is picking up," he notes.

Jake Keever, vice president of sales for the ABC Television Network, describes the activity in the fourth quarter as "typical, but not great, because many advertisers have not submitted

again," believes one network seller.

Buyers, however, are seeing a much bleaker outlook. Richard Kostyra, senior vice president, media director at J. Walter Thompson USA, sees the 1986 network television scene as "dramatically soft when compared to the last couple of years."

He points to uncertain economic conditions which could affect network tv. Furthermore, the "maturity of media alternatives like cable and syndication will further fragment the television pie, particularly the strength of syndication," he notes. Kostyra says that unless some major spending — which he doesn't anticipate happening — occurs, the year for network tv may be down. Indeed, he's predicting that network tv costs, which have been outpacing inflation and the GNP, will either flatten out or possibly go down this upcoming year.

While certain tv categories, such as fast foods, soft drinks and autos may be up in spending for next year, Kostyra does not see that offsetting decreases in other categories. Overall, he thinks a lot of businesses have dried up, naming computers, games and certain drug products. Comparing last year's marketplace behavior to this year's, Kostyra notes early signs of advertisers getting squeamish. "We saw a lot of cancellation and sell-off options being exercised. Many clients simply overbooked last year," he explains, adding they could not live up to their heavy upfront investments.

"The market is not buoyant, and we see it right across the board for all media," he emphasizes. For network tv, Kostyra thinks the networks sold about 50% of their combined inventories in the upfront market, valued, he pegs, at roughly \$2-\$2.5 billion dollars. This would leave another \$2 billion out there in scatter, or \$500 million a quarter. "Even if the networks wind up in a shortfall position because of makegoods, that still leaves a lot of scatter out there," he reasons.

Therefore, JWT, in the short term, is expecting some bargains in the fourth-quarter scatter market. "Prime time prices should be weak, daytime is borderline, sports and kids are weak

### Top 10 Advertisers in Television—1984 (thousands)

|                                               | Spot TV     | Network     | Total TV    |
|-----------------------------------------------|-------------|-------------|-------------|
| Procter & Gamble                              | \$239,328.6 | \$412,747.1 | \$652,075.7 |
| General Foods                                 | 96,673.2    | 190,223.3   | 286,896.5   |
| American Tel. & Tel.                          | 17,235.9    | 253,117.2   | 270,353.1   |
| General Motors                                | 38,575.4    | 231,442.8   | 270,018.2   |
| McDonald's                                    | 91,487.9    | 162,462.3   | 253,950.2   |
| Pepsico                                       | 154,291.0   | 91,906.7    | 246,197.7   |
| Anheuser-Busch                                | 60,538.5    | 166,415.8   | 226,954.3   |
| General Mills                                 | 109,243.5   | 116,706.5   | 225,950.1   |
| American Home Products                        | 29,284.8    | 179,089.0   | 208,373.8   |
| Philip Morris                                 | 46,654.6    | 161,715.7   | 208,370.3   |
| Courtesy of the Television Advertising Bureau |             |             |             |

ratings and advertiser interest. Bob Blackmore, senior vice president, sales, for the network, rather mutedly describes fourth-quarter activity as proceeding "nicely, at an orderly pace." He also declines to discuss how much business is actually on the books for the quarter, and what percentage of inventory was still left.

Needless to say, NBC, which went over the \$1 billion mark in the upfront market, will have considerably less inventory left to sell in scatter than its competitors. And it probably will have an easier time unloading it — and for a good price — than either ABC or CBS. Sources say that CBS finished upfront with \$800 million and ABC

budgets." But the budgets that he has seen, he says, are good, particularly for daytime. Keever notes, too, that the fourth quarter is not exactly a barometer for how the rest of the year will fare, because of the volatile nature of the period.

Privately, network executives express some concern about the economy and that advertisers are in a waiting, holding-back mode. Hence, the iffiness concerning the fourth quarter. But these sources expect that once budgets are approved by the end of December, advertisers will start moving money. "I don't know if it will happen in January or April, but they will start getting the company products out there

and news should remain strong. The market should be potentially flat, with little increase over upfront prices," predicts Kostyra.

As to how the 1985-1986 tv season will fare, buyers are waiting to count the casualties. Paul Schulman, president of the Paul Schulman Co., expects that the networks will be doing plenty of makegoods for upfront buyers, "when much of the schedule goes by

the boards." For his own part, he's not too worried about makegoods, since the buying philosophy of many of his clients, such as MGM and Ralston Purina, is to buy high-rated shows. This strategy lets buyers steer clear of risky shows which usually means they end up with a schedule that runs as originally planned.

Schulman pegs the fourth quarter as "interesting." While the networks will

probably be writing up plenty of makegoods, he says that all three have never been in better positions in terms of having their benches filled with replacements. "NBC has 20 programs already in development for its 9 P.M. Friday night slate, which is currently filled in with *Misfits of Science*," he says.

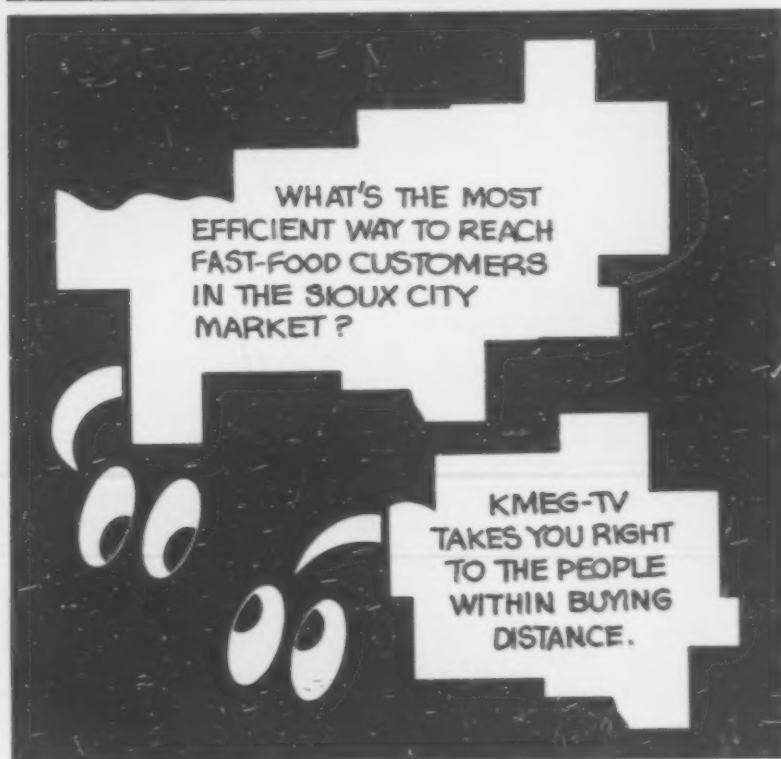
Some of the smaller advertisers who bought the risky shows will have an opportunity to renegotiate when their shows are cancelled, points out Schulman. "This often works to the advertisers' advantage," he says. "Someone may wind up buying a weak show like 227 but later walk away with a new program like the new Valerie Harper series and come out way ahead of the game," he reasons.

"Out of the new crop, there is only one real solid newcomer, NBC's *The Golden Girls*," handicaps Schulman. "There will be plenty of makegoods and redirection of dollars," Schulman foresees. Given that outlook, a lot of the networks' scatter inventory could get gobbled up in makegoods, making it perhaps a tighter quarter than some people might be anticipating. "If you're waiting for good prices in the scatter market, you might not find them," he concludes.

Willard Hadlock, executive vice president, media services, Leo Burnett, tends to agree with Schulman's assessment of the near term. "The fourth quarter should be reasonably good for advertisers," he says. "ABC is still paying back makegoods, and that will continue into the fourth quarter. And you probably won't see as much dumping of last minute merchandise because of the makegood situation eating up inventory." But he also points out that this means "there really aren't the bargains that you used to find in scatter." Hadlock thinks that overall, "scatter will run higher than upfront." At this point, he says "we are not that concerned with scatter conditions. We bought most of our fourth quarter in the upfront."

#### National spot outlook

In *Decisions* annual survey of cost trends, buyers were expecting a 7.2% CPM increase in national spot tv costs



WHAT'S THE MOST  
EFFICIENT WAY TO REACH  
FAST-FOOD CUSTOMERS  
IN THE SIOUX CITY  
MARKET?

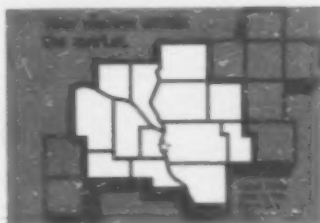
KMEG-TV  
TAKES YOU RIGHT  
TO THE PEOPLE  
WITHIN BUYING  
DISTANCE.

Consumers in the Sioux City ADI spent more than \$190 million eating out.\* And 61% of those dollars were spent in the 13-county Retail Trade Area. If that's where your franchises are, that's where your customers are. So when you advertise, you need to reach people within buying distance, not viewing distance as outlined by the ADI.

KMEG-TV is tailor-made to deliver Sioux City's rich "market within the market" effectively with top-rated CBS programming. It gets your message to your market most efficiently because you don't have to pay for reaching distant viewers who aren't your customers.

Advertising on KMEG-TV really hits the spot. For more information, call your Harrington, Righter & Parsons representative today.

\*SMM - 1984 Retail Sales Estimates.



*A Feltzer  
Station*

**KMEG-TV**

A CBS Affiliate

A MEGAWATT OF SALES POWER FOR SIOUX CITY  
Harrington, Righter & Parsons National Representatives

for the upcoming year.

National spot tv trends, in part, are difficult to predict because advertisers are committing their dollars closer and closer to airtime. Katz Television, the largest tv rep firm, nonetheless expects 1985 to close 11%-12% ahead of 1984. Katz further projects that 1986 will be even stronger — some 12% to 13% ahead of 1985.

Peter Goulazian, president of the

Katz Television Group, points to increased spot dollars coming from the political sector, since there will be local and Congressional elections in 1986. While Goulazian is bullish on the year ahead, he does not expect big CPM increases for advertisers. He sees CPM's coming in around 5% to 6% higher in 1986.

In terms of geographical trends, Goulazian does not see any real pat-

terns in terms of sticky markets. "Problem markets are scattered about and don't tend to cluster in one area of the country. But one thing does trend out — in bad markets, the NBC affiliates and indies tend to do better and get higher rates than the market as a whole," he advises.

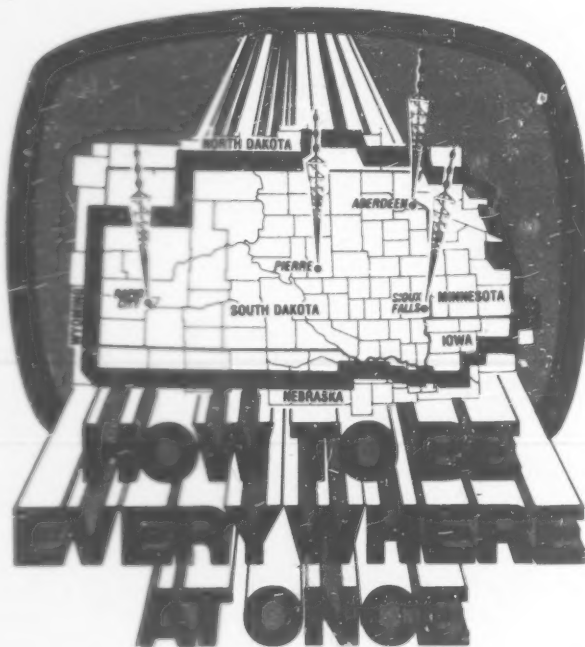
In terms of what impact, if any, last year's avalanche of station sales will have on advertising prices, Goulazian does not expect any effect for awhile. "Costs won't really trickle down yet because many of the large deals have yet to be finalized," he points out. But once all of the paperwork is cleaned up, sometime next year, Goulazian would not be surprised to see some impact on advertising costs. "Those deals were very large investments with high multiples, and they will result in increased competitive pressures for the new owners. Eventually, all of the stations in the market will respond likewise," he predicts.

All in all, Goulazian does not expect any radical changes for 1986. He predicts that advertisers will continue to allocate the usual 28% to 29% of their total tv budget to national spot tv.

Over at Blair Television, Pat Devlin, executive vice president and director of sales operations, expects 1986 to come out 10%-12% ahead in national spot sales, as compared with 1984 which ended up 14.5% ahead. Coloring his forecast is the growth of barter and its impact on inventories. More and more stations, he finds, are giving up time in exchange for "free" programming. He's looking for CPM's to increase a "little higher than previous years, but still far below network increases."

JWT's Kostyra, who thinks that all media will be soft in 1986, reasons that spot tv budgets are usually one of the first items advertisers cut. "They plan network first and fill in with syndication and then spot," he says. "When they cut, they start cutting from the bottom." As to all the election monies that sellers hope are out there to eat up their inventories, Kostyra refers back to 1984, when the big political dollars failed to materialize in the quantity sellers expected.

*Continued on page 100*



Tell your advertising story on KELO-LAND TV. You'll be talking to some 100 counties at once. More important, your message will be seen, heard — and acted upon — by hundreds of thousands of people in one of America's key markets. A big, bountiful midwestern market that's considered a must for any true national advertising campaign. There is no other selling force to match it!

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KELO-TV Sioux Falls, S.D. and satellites KDLO-TV, KPLO-TV  
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Represented nationally by **SETL** In Minneapolis by WAYNE EVANS

## A conversation with George Mahrllig

*George D. Mahrllig is director of media services at Campbell Soup. While not one of the top ten tv spenders, Campbell's, which last year spent \$96 million in the medium, is regarded as one of the savviest tv negotiators.*

### On the economic outlook:

Managements everywhere are more cautious about the economy. It's not just at Campbell Soup or the food processing industry, but everywhere. Management tends to be less bullish on income and that filters down to questions of advertising and media.

### Impact on network tv buys:

That caution has caused some individual brands to rethink how they use network television. But the impact has not been felt yet overall for all brands. What we may find later on in the year is that, if those brands in question turn out to have a better year than expected,



they might buy more tv during scatter than originally planned.

### Fourth quarter outlook:

It really has not taken off and it appears to be on the soft side.

### Outlook on daytime network tv:

For some brands, daytime tv is not as important as it once was, but advertisers are not exactly abandoning daytime. We have not noticed less demand for daytime. What we have seen happening with daytime tends to depend on individual brand's needs. For example, if a brand has dual dynamics — by that I mean women may purchase the product, but males and teens consume it — then the brand is less likely to be dependent on daytime tv. But daytime tv is still the primary way of reaching the female homemaker.

### On CBS' 15-second newsbreak:

It is a move by CBS to take a product they had considerably less demand for — the 10-second break — and make it more attractive for advertisers. It appears to be an isolated thing. Whether it is the precursor to a solo 15 is anyone's guess. What I do know is that one way or another this will enhance the income of the network.

## A conversation with Marc Goldstein

*Marc Goldstein is senior vice president and director of network programing at Ogilvy & Mather. When interviewed on tv cost trends for the upcoming year in mid-August, Goldstein summed up overall market conditions in one word: uncertainty.*

### On the feel of the market:

The fourth quarter is generally a volatile one because many companies' fiscal years correspond to the calendar year ending December 31. But this go-round, we are really sweating it out on our reading of the fourth quarter. There is unsureness about the economy — retail sales are flat, there are questions about an automobile strike. Advertisers are quite cautious.

### On cost increases:

We publish numbers internally for the purposes of planning and those numbers are updated along the way. We tell clients what it will cost them to go upfront and what they can expect to spend in the scatter marketplace. Some months ago we thought scatter would



be a little higher than upfront and advised clients accordingly. But now we think there will be some opportunities in the fourth-quarter scatter market —

**We are sweating it out. There is unsureness about the economy. Advertisers are quite cautious.**

mostly in prime time, but some daytime — where prices will be equal to or below prime time prices. But we may not even have a firm handle on fourth quarter until December 1.

### On gambling in scatter:

Taking a chance on scatter in the fourth quarter depends on the client. Some clients can afford to be flexible and take advantage of last minute opportunities, others can't afford it. If you're a toy company you have to be out there on October 15 and you can't afford to chance scatter, or if you do, only a small percentage of your budget.

### On CBS' 15-second newsbreak/sportsbreak commercial as a trail-blazer for solo 15's:

It's an isolated thing and I'm sure NBC and ABC will follow suit. For the short term, I don't expect that the 15 will become the basic unit of sale. CBS was having difficulty selling its 10-second newsbreaks (which sold for 60% of the cost of a 30-second spot) and that move was CBS' way of making those spots attractive to possible 15-second advertisers.

# Cable puts a lid on rises as it redefines its base

Expect 2-4% as the new kid in broadcasting continues to feel growing pains.

**T**he general view on cable is that, from an advertising standpoint, it should be only slightly more expensive to buy next year than last year. Most expect CPM's to inch up around 2% to 4%, while overall rate hikes should stay under 10%.

This prediction is based on cable's current state of affairs. "What the cable networks charge is a blend between changes in their household coverage base, their ratings levels and their actual audience delivery levels," says Ron Kaatz, U.S. director of media concepts for J. Walter Thompson. "If their coverage base and ratings go up they can increase their rates. If coverage goes up and ratings stay flat they can increase rates less. And if there's no significant change in coverage and ratings decline, they can't increase prices. With the amount of time cable nets have available to sell there is no reason for anything but modest increases in CPM's of just a couple of percentage points."

Cable is still a medium in a state of flux. Its penetration is increasing—it's now in 45.7% of U.S. households, up from 42.5% at the same period last year—subscriber counts are rising, viewers are more familiar with what's on and the cable networks themselves are on the verge of better quantifying for advertisers what kind of audience de-



mographics they draw. Also to its credit is its undeniable role in the erosion of viewers from network television. Yet the medium is still thought of as "fledgling" by most advertisers. Indeed, though more and more marketers are opting to use cable, and/or increasing their advertising outlays, the dollars spent are but a drop in the bucket as compared to expenditures for television or magazines.

There are many reasons why cable's growth has been slower than expected. For starters, wiring of major markets took longer and cost more than planned. Then too, cable as a whole has not promoted its programming to viewers as strongly as advertisers and agencies would like. Plus, many buyers have shied away because of a lack of marketing information. Until the last year or two, few services were monitored for Nielsen ratings. Others also note that commissions on cable billings are not nearly as lucrative to agencies as those from television, perhaps diluting the agency incentive to support the newer medium.

Cable marketers now say advertiser attitudes are warming, thanks to changes the industry and individual services have made. For example, the cable industry is moving away from what was its birth announcement: a new form of broadcasting that would

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## Marketing &amp; Media Decisions Scatter Cost Estimates Of Key Cable Networks

| Marketing & Media Decisions Scatter Cost Estimates Of Key Cable Networks |                          |             |                                                 |             |                                                     |  |             |                                                                                                                                                                                            |  |             |                                                           |  |             |                                                  |  |             |                                                                                                                |  |             |
|--------------------------------------------------------------------------|--------------------------|-------------|-------------------------------------------------|-------------|-----------------------------------------------------|--|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-------------|-----------------------------------------------------------|--|-------------|--------------------------------------------------|--|-------------|----------------------------------------------------------------------------------------------------------------|--|-------------|
| Cable Network                                                            | Subscribers<br>5/84 5/85 | Daytime     |                                                 |             | PrimeTime<br>Entertainment                          |  |             | Live Sports                                                                                                                                                                                |  |             | Kids Programming                                          |  |             | Young Adults<br>Programming                      |  |             | News and Information                                                                                           |  |             |
|                                                                          |                          | Rating / HH |                                                 | Est.<br>CPM | Rating / HH                                         |  | Est.<br>CPM | Rating / HH                                                                                                                                                                                |  | Est.<br>CPM | Rating / HH                                               |  | Est.<br>CPM | Rating / HH                                      |  | Est.<br>CPM | Rating / HH                                                                                                    |  | Est.<br>CPM |
|                                                                          |                          | (000)       |                                                 | \$1:30      | (000)                                               |  | \$1:30      | (000)                                                                                                                                                                                      |  | \$1:30      | (000)                                                     |  | \$1:30      | (000)                                            |  | \$1:30      | (000)                                                                                                          |  | \$1:30      |
| ESPN                                                                     | 32.7 36.5<br>mil         |             |                                                 |             |                                                     |  |             | Col. BB 1.7/821 \$4.50 \$2800<br>Col. FB 4.0/460 \$4.50 \$2100<br>Hockey 1.5/548 \$4.50 \$2500<br>Golf 1.0/365 \$4.50 \$1650<br>Tennis .6/219 \$4.50 \$1000                                |  |             |                                                           |  |             |                                                  |  |             |                                                                                                                |  |             |
| WTBS                                                                     | 31.0 34.8                | M/F<br>S/S  | 1.7/592 \$2.25 \$1300<br>3.0/1044 \$2.75 \$2900 |             | 2.8/974 \$4.50 \$4400                               |  |             | Baseball 2.8/974 \$5.95 \$5600<br>NBA 3.0/1044 \$4.50 \$4700<br>Col. FB 2.3/800 \$5.50 \$440                                                                                               |  |             | M-F 1.1/383 \$2.25 \$900<br>Sun. am 1.8/626 \$2.25 \$1400 |  |             | Nighttracks<br>F/S 1.2/418 \$3.50 \$1500         |  |             |                                                                                                                |  |             |
| CNN                                                                      | 23.8 34.8                | M/F<br>S/S  | 7/244 \$2.25 \$550<br>1.0/348 \$2.25 \$800      |             | 9/313 \$4.00 \$1250                                 |  |             |                                                                                                                                                                                            |  |             |                                                           |  |             |                                                  |  |             | 8/278 \$4.00 \$1100<br>SpecBus Shows<br>8/313 \$5.85 \$1700                                                    |  |             |
| USA                                                                      | 23.0 30.6                | M/F<br>S/S  | 8/245 \$2.00 \$500<br>2.0/612 \$2.30 \$1400     |             | 1.9/581 \$4.25 \$2450                               |  |             | Tennis 1.0/306 \$1.90 \$1500<br>US Open 1.8/551 \$7.60 \$4200<br>Col. BB 1.3/398 \$4.25 \$1700<br>NIT 1.5/459 \$5.25 \$2400<br>Col. FB 1.3/398 \$5.00 \$2000<br>Golf 1.5/459 \$4.80 \$2200 |  |             | 3.3/1010 \$2.25 \$2300                                    |  |             | Radio 1990<br>Nightflight<br>8/245 \$4.50 \$1100 |  |             | Biznet 3/392 \$3.26 \$300<br>Wall Street Journal<br>2.1/643 \$4.75 \$3000                                      |  |             |
| CBN                                                                      | 23.0 29.7                | M/F<br>S/S  | 4/119 \$1.50 \$175<br>2.2/453 \$2.00 \$1300     |             | 1.3/386 \$3.75 \$1450                               |  |             |                                                                                                                                                                                            |  |             | M-F 6:30-10am<br>"I" N/A \$1800                           |  |             |                                                  |  |             | M/F 4-6 game show<br>1.3/386 \$2.00 \$775<br>M/F 6-8 1.4/416 \$3.00 \$1250<br>M/F 11-1am<br>6/178 \$2.75 \$500 |  |             |
| MTV                                                                      | 21.8 28.0                |             |                                                 |             | 1.1/308 \$6.50 \$2000                               |  |             |                                                                                                                                                                                            |  |             |                                                           |  |             | 8/224 \$5.00 \$1100                              |  |             |                                                                                                                |  |             |
| LIFETIME                                                                 | 20.0 23.8                |             | 3/71 \$1.35 \$100                               |             | M/F<br>S/S 6/143 \$5.25 \$700<br>6/143 \$5.25 \$700 |  |             |                                                                                                                                                                                            |  |             |                                                           |  |             |                                                  |  |             |                                                                                                                |  |             |
| NICKELODEON                                                              | 19.3 25.5                |             |                                                 |             |                                                     |  |             | 8/204 \$5.00 \$1000                                                                                                                                                                        |  |             |                                                           |  |             |                                                  |  |             |                                                                                                                |  |             |
| FNN                                                                      | 16.8 16.1                |             |                                                 |             |                                                     |  |             |                                                                                                                                                                                            |  |             |                                                           |  |             |                                                  |  |             |                                                                                                                |  |             |
| THE WEATHER<br>CHANNEL                                                   | 12.3 18.7                |             | 4/75 \$3.50 \$275                               |             | 4/75 \$3.50 \$275                                   |  |             |                                                                                                                                                                                            |  |             |                                                           |  |             | 3/48 \$10.40 \$500<br>4/75 \$3.50 \$300          |  |             |                                                                                                                |  |             |
| NASHVILLE<br>NETWORK                                                     | 14.2 23.8                |             | 3/71 \$1.50 \$125                               |             | 7/167 \$3.00 \$500                                  |  |             |                                                                                                                                                                                            |  |             |                                                           |  |             |                                                  |  |             |                                                                                                                |  |             |

\*below reporting standard  
Source: Paul Kagan Associates Inc., Carmel, CA

\*below reporting standard  
Source: Paul Kagan Associates Inc., Carmel, CA.

allow programers and advertisers to target very specifically certain sections of the viewing universe. Now, most services are trending away from narrowcasting and going towards offering more general audience entertainment. As a result, they are finding more takers for their advertising time.

With subscriber counts increasing at the rate of about 300,000 a month, cable is becoming more difficult to ignore. As of July, cable claimed 39 million subscribers, up from 37 million the previous July. The regular availability of ratings and demographic breakdowns have boosted cable nets' revenues and credibility as an ad vehicle. Twelve cable networks are now metered by Nielsen. In the last few months of 1984, metered cable viewership reached an all time high, with over 2.3 million tv homes delivered on a 24-hour basis and 3.3+ million viewers in prime time. The demographics of these viewers are very attractive to advertisers. Cable households generally are more affluent than the total population.

These kinds of numbers helped cable tally up an estimated \$460 million in ad revenues in 1984, up 52% from 1983, by Paul Kagan Associates' count. Kagan is targeting a 32% ad revenue increase for this year, to \$606 million. One bright spot has been the boom in ad spot sales. Local ad sales zoomed up 70% to \$86 million and could add another 50% gain to \$129 million this year, claims Kagan.

Two major factors which continue to keep the cable ball in motion are the continuing dropoff in network television audiences and the high costs associated with that medium. According to Nielsen, audience tune-in to network shows dipped 2% to 77% — the sixth-straight year of declining numbers. At the same time, advertisers continue to pay high prices for commercial time. A typical 30-second network spot during prime time averages \$60,000 to \$125,000, while a similar slot on a cable network — MTV — goes for around \$2,000.

Interestingly, while cable's impact on network viewing has been widely documented, less well known is the

falloff in popularity of network affiliates and independents. Audiences of network affiliates and independents are continuing to drop in total tv and cable households, while viewers of ad-supported cable — particularly satellite networks — kept growing nationally. For the first six months of 1985, on a total day basis in total television households, network affiliates had a 66%

serve that cable networks are being paid on a nearly equal basis with ABC-CBS-NBC for their share of viewers. That is, cable's 1984 audience share as a percentage of broadcast network viewing was 6.55% and cable had 6.49% of broadcast network revenues. In fact, say Kagan speculators, 1985 may be the year when cable nets will be receiving a slight revenue premium,

### Cable Advertising's Top 10 (thousands)

|                  | 1983       | 1984       | % Change |
|------------------|------------|------------|----------|
| Procter & Gamble | \$15,172.2 | \$24,182.2 | 59.4%    |
| Anheuser-Busch   | 15,760.9   | 15,477.8   | -1.8     |
| General Foods    | 11,290.3   | 13,169.1   | 16.6     |
| General Mills    | 10,258.8   | 11,339.3   | 10.5     |
| Time Inc.        | 5,517.7    | 7,191.5    | 30.3     |
| Ford Motor Co.   | 5,087.0    | 6,892.1    | 35.5     |
| Bristol-Myers    | 6,505.5    | 6,242.2    | -4.0     |
| Toyota           | 5,247.6    | 5,390.7    | 2.7      |
| Thompson Medical | 1,016.2    | 4,456.0    | 338.5    |
| AT&T             | 2,789.3    | 3,456.6    | 23.9     |
| Total/Avg.       | \$78,645.5 | \$97,797.5 | 16.7%    |

Source: BAR

share, down from a 69% share last year at the same time. Independents had a 16% share, versus a 15% share last year. Public tv had a 4% share, the same percentage as in the corresponding 1984 period. Cable garnered a 20% share — of which 14% was to ad-supported nets and 6% to pay — against a 17% share last year.

"Buying independents to counteract network erosion and underdelivery clearly isn't the answer because independents too are eroding," says Radford Stone, vice president, national marketing director of the Cable Advertising Bureau. He pitches that "advertisers gain audience efficiencies in terms of reach and frequency delivery when they convert a significant portion of their broadcast budget to cable."

Though few if any major advertisers are taking Stone's advice literally, many are increasing their commitments to the cable realm. Kagan analysts ob-

about 2%, over their viewing share.

One way cable is attracting more dollars is to change its programing focus. Recognizing that entertainment is the name of the game, cable programers are leaving behind more narrowly focused shows in favor of those with broad general appeal. "We're not reinventing the wheel," notes Dan Lawlor, vice president of national ad sales for USA Network. "We can experiment a little more but we are first and foremost an entertainment vehicle. Broadening our appeal makes us more attractive to advertisers."

Indeed cable nets are expanding their horizons while still keeping to their basic network genre. For instance, FNN is throwing some sports into its mostly business programing. ESPN is talking about doing a movie (most likely sports-themed); and Nickelodeon's nighttime programing, *Nick at Night*, is aiming at broader audiences.

## A conversation with Don Miceli

*Don Miceli is the associate director of media services for General Foods, one of the major advertisers on cable.*

### On how General Foods buys cable:

We buy cable based on audience delivery, which is not dissimilar from our approach to network tv. However, network shares have been driven down by other avenues of viewing, so we make up for audience loss through syndication and cable. About 4%-5% of our total tv budget goes to cable, principally for buys on WTBS, CNN, CNN/Headlines, CBN, and Lifetime. We are only slightly involved in local advertising except for local regional brands like Yuban (primarily a West Coast item) because local cable is too difficult to measure and comes out to be expensive.

### On how GF uses cable:

In addition to buying national spot, we have partial sponsorship on WTBS of the *Cousteau Special* and *Portraits of America*. The advantage of that approach is that we get identification with the program, and billboards at no additional cost. Of course, the most important aspect is the positive association between the quality program and our name in the viewers'



mind. We also began, in late October, "drop-in programs" called *Short Cuts*, which give quick tips on preparing easy, nutritious meals. The drop-in has 90 seconds of programming which contains no product mention, and then a

**Local cable is too difficult to measure and comes out to be too expensive.**

30-second spot commercial; all told, 120 seconds. The program runs on CNN, CBN, Lifetime, USA, and Nashville Network. It's a low cost way

to get product association in an informative manner since there's some rub-off for the General Foods' products in the program. The fact that the program actually contains the tag-on commercial is a nonintrusive way of retaining viewer attention.

### On cable benefits:

Cable networks are becoming more general-audience inclined, and are becoming no different than broadcast tv. Cable also makes up for network share loss, and at a substantially lower cost. We consider cable, though, to be principally beneficial in its environmental targeting, despite the trend toward generality in programming. CNN and Lifetime still have a good target and MTV is particularly good for reaching hard-to-reach teens.

### On the future:

We'll be continuing our national spot buys and developing drop-in programs like *Short Cuts*. Considering the low cost of producing drop-ins, we feel they are an excellent way to extend our reach via many cable networks. We've been involved with cable for the past five years and most likely will accelerate our participation as cable continues to mature.

## Projections of Cable TV Network Advertising

| Year | All TV<br>Homes x<br>(mil) | Avg.<br>HUT =<br>% | Viewing<br>Homes x<br>(mil) | Bcast<br>Share =<br>% | Bcast<br>Viewing<br>Homes<br>(mil) | Cable<br>Ad<br>Homes<br>(mil) | Avg.<br>Cable<br>HUT =<br>% | Viewing<br>Homes x<br>(mil) | Cable<br>Viewing<br>Share =<br>% | Actual<br>Cable<br>Viewing<br>(mil) | Cable<br>% Bcast<br>Viewing<br>% | Cable<br>% Bcast<br>Revenue<br>% | Bcast<br>Netwk.<br>Revenue<br>(bil) | Cable<br>Netwk.<br>Revenue<br>(bil) | %<br>Ch. |
|------|----------------------------|--------------------|-----------------------------|-----------------------|------------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|-------------------------------------|----------------------------------|----------------------------------|-------------------------------------|-------------------------------------|----------|
| 1984 | 85                         | 50                 | 42.5                        | 69                    | 29.32                              | 24.0                          | 50                          | 12.00                       | 16                               | 1.92                                | 6.55                             | 6.49                             | \$7.07                              | \$0.460                             | 51.9%    |
| 1985 | 87                         | 50                 | 43.5                        | 68                    | 29.58                              | 27.5                          | 50                          | 13.75                       | 17                               | 2.34                                | 7.90                             | 8.07                             | 7.49                                | 0.606                               | 31.7     |
| 1986 | 89                         | 50                 | 44.5                        | 66                    | 29.37                              | 30.5                          | 50                          | 15.25                       | 18                               | 2.75                                | 9.35                             | 9.53                             | 8.39                                | 0.800                               | 32.0     |
| 1987 | 91                         | 50                 | 45.5                        | 64                    | 29.12                              | 33.5                          | 50                          | 16.75                       | 19                               | 3.18                                | 10.93                            | 11.15                            | 9.40                                | 1.048                               | 31.0     |
| 1988 | 93                         | 50                 | 46.5                        | 63                    | 29.30                              | 36.5                          | 50                          | 18.25                       | 20                               | 3.65                                | 12.46                            | 12.71                            | 10.53                               | 1.338                               | 27.7     |
| 1989 | 94                         | 50                 | 47                          | 62                    | 29.14                              | 38.5                          | 50                          | 19.25                       | 21                               | 4.04                                | 13.87                            | 14.15                            | 11.79                               | 1.669                               | 24.7     |
| 1990 | 96                         | 50                 | 48                          | 60                    | 28.80                              | 40.5                          | 50                          | 20.25                       | 22                               | 4.46                                | 15.47                            | 15.78                            | 13.21                               | 2.084                               | 24.9     |
| 1991 | 98                         | 50                 | 49                          | 60                    | 29.40                              | 42.5                          | 50                          | 21.25                       | 23                               | 4.89                                | 16.62                            | 16.96                            | 14.79                               | 2.508                               | 20.4     |
| 1992 | 99                         | 50                 | 49.5                        | 60                    | 29.70                              | 44.5                          | 50                          | 22.25                       | 24                               | 5.34                                | 17.98                            | 18.34                            | 16.57                               | 3.038                               | 21.1     |
| 1993 | 100                        | 50                 | 50.0                        | 60                    | 30.00                              | 46.5                          | 50                          | 23.25                       | 25                               | 5.81                                | 19.38                            | 19.76                            | 18.56                               | 3.667                               | 20.7     |
| 1994 | 101                        | 50                 | 50.5                        | 60                    | 30.30                              | 48.5                          | 50                          | 24.25                       | 25                               | 6.06                                | 20.01                            | 20.41                            | 28.78                               | 4.241                               | 15.7     |

Source: Reprinted with permission of Paul Kagan Associates, from CABLE TV ADVERTISING NEWSLETTER, March 1985.

Most importantly, says Lawlor, cable is becoming a "quantitative sell," to the AB-county, upscale, \$30,000 plus household. "Cable is on the way to quantifying its geographic specification and demographic/usage characteristics in its sell to advertisers," adds Bob Williams, president of New England CableRep, the national cable advertising firm. "Cable is finding ways of translating the value of its audience by applying multipliers to broadcast efficiencies," he explains.

The multipliers are arrived at through geographic evaluations of advertiser needs and demographic/usage considerations of advertisers' products and services, continues Williams. "Cable is beginning to get a better grip as to who its subs are and how the medium fits into advertisers' planning. The cost of advertising on cable will begin to adjust itself to be more in line with what makes cable a good buy versus other options in the market."

While realizing the necessity to

prove performance to advertisers, many cable network executives are resentful of what they view as a fixation with numbers. Bob Roganti, senior vice president of advertising for MTV, which is known for its target delivery of hard-to-reach demos, says, "The quantification argument has been beaten to death. It's something that the clients have forced everyone into, and we've done it, which either means we're smart or weak, I'm not sure."

*Continued on page 97*

## A conversation with Larry Blasius

*Larry Blasius, BBDO's vice president of network programming, holds some definite views on cable usage.*

### On using cable:

BBDO is still very positive about cable and we encourage different approaches to the medium depending on the client's goals. Client approaches run the gamut from spot buys to placing programming as sponsors. For example, Pepsi-Cola USA and Wm. Wrigley, Jr. Company buy spots; Pepsi is especially heavy into MTV and buys the full range of cable: USA, Lifetime, WTBS, BET, Weather Channel, Nashville Network, and CBN. Wrigley buys VH-1 as well. We worked with Menley & James to develop *Fitness Magazine* which ran first on USA, then as a rerun on CBN and went on ESPN first quarter of this year. Campbell Soup produced *Woman's Watch* which ran on WTBS, USA, and CBN 1983-84, and completed its run in 1985. Armstrong Corporation sponsored *Design for Living* on USA and that ran the fourth quarter of 1984.

### On client-sponsored shows:

The advantages to client-sponsored programming varies by client. In the case of Campbell's they developed shows to target a particular demo that would highlight women in a positive way. *Celebrity Chefs* integrates the product into the show and that gives Campbell's more mileage than running spots. Menley & James adopted a strategy to foster



viewer identification with their product and the fitness show. In the same manner, *Design for Living* acted as a symbiotic rub-off from the show onto the product and vice versa.

When advising clients as to the best approach, we keep in mind cost and goal factors and environmental concerns such as what demos the cable network delivers.

### On cable trends:

The more cable nets grow, the more general entertainment they become. And the bottom line is that advertisers will get more interested in that larger audience reach. The economic survival of a number of the cable networks hinges on their getting away from narrowcasting.

### On cable costs:

The cost varies depending on the client and his association with the cable net. Charter clients like Pepsi still retain preferred rates which involve paying lesser costs over a period of time. Pepsi, for instance, got involved in the launch of MTV and as such retains charter advertiser status. The law of supply and demand applies to cable even more so than to broadcast networks. It's still a buyer's medium from the negotiation standpoint. No cable network can claim to have a sold-out inventory. Overall CPM's are increasing 2%-5%, but along with that goes the leveling off in growth, so you really can't legitimize cost rate increases as you could have two or three years ago when there was rapid growth rate. Base costs will rise proportionately to increases in subscriber growth.

### On audience measurement data:

Some people think there's too much data available; others think there's too little. One of the big issues is the revising of methodology as far as Nielsen's evaluating of audience composition. CNN took issue with the diary system in the fact that the diary was underestimating true audience. So they asked agencies to factor in their coincidentals to Nielsen's. It's been up to the individual agency buyer whether or not to do that. There is a need to standardize cable audience measurement since we need to evaluate all the networks in a uniform manner.

# Radio may be hot, but its rate hikes are not

Moderation is the key as radio once again gets the ear of segmentation fans.

**W**ith more than 8,500 commercial radio stations and 18 radio networks broadcasting today, the radio business is a many-tentacled beast.

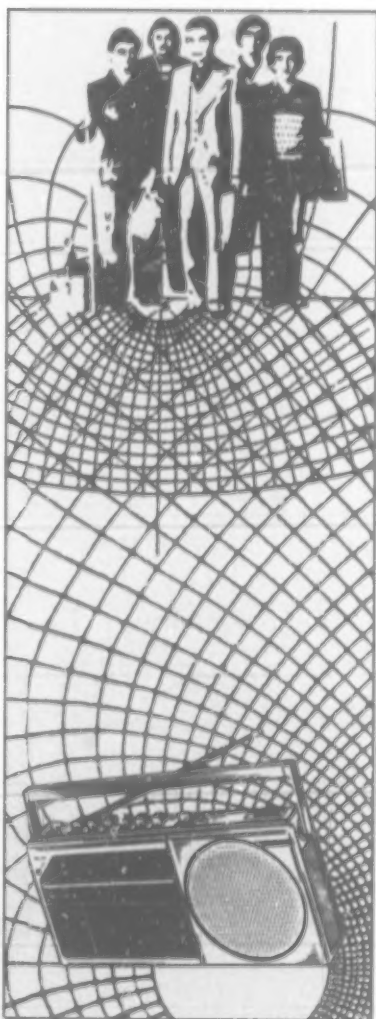
Cost increases occur gradually in this far-flung industry, which each year manages to improve its share of advertising expenditures by enough percentage points to stay just ahead of the Cost of Living Index.

From 1983 to 1984, radio's CPM grew 6.8% and its spot unit cost rose 8.1%. The CPM index for network radio rose from 264 in 1984 to 282 in 1985, an increase of 6.8%.

In national spot radio, the CPM index grew 5.4% from 221 in 1984 to 233 in 1985, according to the Radio Advertising Bureau, which calculates percentage increases from CPM indices from McCann-Erickson's annual survey of media costs.

*Decisions'* annual cost survey projects that network radio CPM's will increase 6.9% and that national spot will be up 5.9% in 1986.

Advertising revenues for network radio grew 13.6% from 1983 to 1984, and increased by the same percentage in the first half of 1985, according to the RAB. Spot revenue grew 11.9% in the first half of 1985 after jumping 15.8% in 1984. Based on year-to-date revenue figures provided by the Radio Network Association and Radio Expenditures



Reports, the RAB projects that 1985's network revenues will total \$327.2 million and that national spot will amount to about \$1.3 billion.

## National spot outlook

Radio outlets around the country vary greatly in size, transmitting power, income, programing and community influence. That economic diversity results in wild variations in advertising rates. For example, in 1985, a station in a small market sold 60-second commercials for \$3, while a major market station commanded \$2,500 for 60 seconds during a major personality's morning drive-time shift.

Given the lay of the land, radio buyers find it hard, if not impossible, to provide meaningful CPM estimates for national spot for 1986. "With almost 9,000 radio stations, it is very difficult to pinpoint increases," bemoans Lenny Stein, broadcast supervisor at Young & Rubicam. Nonetheless, Stein is not expecting any radical cost changes for most markets. "There will be increases in given markets on a few stations, simply because of the supply and demand situation," he predicts.

Of course, some markets are just hotter, and therefore more expensive, than others. And not surprisingly, this year's hot markets once again tend to be clustered in the Sunbelt. Jim Dun-

### Radio's Top 10 Network Advertisers-1984 (thousands)

|                       |            |
|-----------------------|------------|
| American Tel. & Tel.  | \$16,343.9 |
| Cotter & Co.          | 10,201.3   |
| Jeffrey Martin        | 9,349.1    |
| Sears Roebuck & Co.   | 8,630.3    |
| Warner-Lambert Co.    | 8,143.0    |
| General Motors Corp.  | 6,745.6    |
| Purex Indus.          | 6,715.0    |
| Dow Jones Co.         | 6,430.5    |
| Anheuser-Busch.       | 6,231.4    |
| Triangle Publications | 5,227.7    |

Source: Broadcast Advertisers Report

can, author of "American Radio," a yearly report which analyzes ad cost trends, points to Houston, Los Angeles and Dallas as being successful in boosting their ad rates.

Other markets are clearly less attractive to national spot advertisers. In

Blair Radio's outlook for the third quarter 1985, the Philadelphia market "is plagued with a number of inactive and lost accounts," with the market pacing about 20% below last year's third-quarter levels. And Blair's outlook for Chicago, Detroit, Minneapolis and St. Louis is mixed to poor as well.

In Philadelphia, Rick Guest, general sales manager at WFIL/WUSL-FM, is dissatisfied with the market's generally low cost per point. "The big radio stations," Guest says, "continue to be afraid to ask for big rates. I come from Dallas where an average cost per point in a good season is \$100. For a market this size — plus the audience that we deliver — we are under-priced by about 10-15%."

One factor some buyers cite as helping keep spot radio costs down is the use of unwired radio networks. While many buyers clearly believe that unwired networks ease the buy — alleviating the need to deal with stations on an individual basis — some also suggest that it keeps costs down as well. Doug Seay, vice president and director of network operations for

### Radio's Top 10 National Spot Advertisers-1984 (thousands)

|                       |            |
|-----------------------|------------|
| Anheuser-Busch        | \$38,287.6 |
| American Tel. & Tel.  | 33,316.3   |
| General Motors        | 30,835.9   |
| Van Munching & Co.    | 30,650.9   |
| Pepsico               | 25,025.3   |
| Miller Brewing        | 20,855.7   |
| Delta Airlines        | 19,321.0   |
| Coors Brewing         | 18,926.9   |
| Chrysler Corp         | 18,776.6   |
| Political advertising | 14,317.1   |

Source: Radio Expenditures Reports

Lord, Geller, Federico, Einstein, belongs in that group. "Any alternative opportunity helps negotiations, and better negotiations keep rates down," he believes.

National radio reps point to another factor which may affect advertising

## A conversation with Marlene Chautin

*As local broadcast supervisor at Young & Rubicam, Marlene Chautin is involved in the placement of national spot radio schedules for clients such as Gulf Oil, U.S. Postal Service and Walt Disney Productions. Chautin finds that the organization of unwired networks, the proliferation of targeted radio networks, and the increased availability of nationally syndicated programs have made it easier for media buyers to make purchasing decisions.*

### On Arbitrends:

A monthly report might be carrying it a step beyond what is needed. The majority of markets are surveyed twice a year and that tends to become a problem because station formats can be volatile. You really just cannot take a book that's been in the house for six months and look at it because the data could be meaningless. Putting everyone in a



book four times a year would be a big improvement. It would not be necessary in markets 150 to 200, but certainly in the top 100 or 125 markets.

### On cost factors:

Seasonality is a factor. The medium

has many seasonal advertisers coming in for summer — suntan lotions, outdoor products, tourist attractions, that sort of thing. Youth-oriented stations get sold out. In the market of Myrtle Beach, S.C., a resort, rates for the summer bear absolutely no relationship to winter rates because the population swells for three or four months out of the year. Like anything else, costs relate to supply and demand. The spring/summer, will, as far as I can tell, continue to be demand times for radio.

### Unwired networks

A lot of radio that is bought out of Y&R/New York is bought on either a wired or unwired basis, particularly those accounts that are going into 60% or 70% of the country. It makes much more sense to do a wired or unwired buy than what I call "spot spot." It's far more appropriate. There are wired networks like ABC Contemporary that

*Continued on page 102*

rates in the upcoming year. At McGavren Guild Radio, Peter Doyle, vice president and regional manager, believes that the high prices being paid for radio station licenses and properties could eventually have an impact on ad rates as owners look for ways to service their debts by adding to the bottom line.

"It's just beginning to trend," concurs Sam Michaelson, vice president and associate buying director for Dancer Fitzgerald Sample. Michaelson foresees that the effects of record-breaking sales of radio stations this past year will be felt gradually over the next few years by radio advertisers. Already, Michaelson has noticed that rates have risen dramatically on two stations in Houston and Los Angeles since the stations were purchased for

record amounts of money by established station groups.

While radio's low cost continues to be one of its most saleable virtues, many radio sales executives are taking an aggressive stance, steering away from discussions solely of cost alone, heralding instead the medium's strategic strengths.

For example, at WGN in Chicago, Kelly Seaton, general sales manager, suggests that one way for radio to increase its value would be for the medium to promote itself as a reach medium, an advertising vehicle capable of communicating commercial messages to a mass audience. "Arbitron has now come up with a way to measure multi-week cumes and agencies are going to find that reach levels are higher than they have been accus-

tomed to in radio," she predicts.

That may indeed be true of WGN, whose news and talk format is one of the most expensive radio buys in the nation. A 60-second spot on the popular Wally Phillips talk show commands a cool \$1,500.

However, no matter what tactic radio uses to sell itself, advertising agencies are equally as tenacious in their efforts to keep costs down. "Unfortunately," complains Lynn Bryan-Simmons, national sales manager at WRKS-FM, New York, "I'm finding a lot of advertising agencies this year are coming in with very low costs per point and trying to deliver a buy based on that very low figure. Costs per point are either the same or lower than last year." Simmons speculates that ad-

*Continued on page 101*

## A conversation with Dick Draper



*AT&T spent the most money in network radio of any major advertiser in 1984, according to Broadcast Advertisers Reports Inc. The communications giant spent \$16.3 million in 1984, a significant increase from \$9.5 million in 1983. As director of advertising and sales promotion for AT&T Information Systems, Dick Draper plays a key role in the placement of radio advertising for AT&T. For Draper, the medium allows the company to reach small businesses in markets of various sizes.*

### On advantages:

Radio is very personal and it is perceived as local, not national, which is

important to our marketing strategy. We use radio exclusively for our small business campaign as our primary medium for reaching small business prospects. We have, among other things, an 800 number that we promote heavily on radio that connects you to the nearest AT&T office. We want to insure that people understand that we are a national company with a local presence. We use morning and evening drive time on seven different networks. Radio is also very good for household commodities like long-distance calls.

### On shortcomings:

Radio is very good for some things,

but in our estimation, not suitable for others. We don't use it to sell computers. We don't use it for our very complex computing and telecommunications products because radio is not a good medium for explaining a sophisticated system that costs a lot of money. In some cases, you can't avoid long copy.

### On cost expectations:

I would anticipate a modest or moderate increase, not a stratospheric one. This is because radio is of growing importance for business-to-business advertisers — such as ourselves — and because there is a demand. If you can come up with well-executed creative, it can really make a difference as an advertising medium.

### On radio's future:

My sense is that radio is very much alive and well and in fact is moving forward at an accelerating pace. Radio is always changing, which is good from an advertising perspective in that it has become a lot like print or a lot like cable tv. You can buy a network, or even individual stations, which delivers a specific audience rather than a general one. It is becoming a very targeted medium that an advertiser ought to be able to use to his advantage.

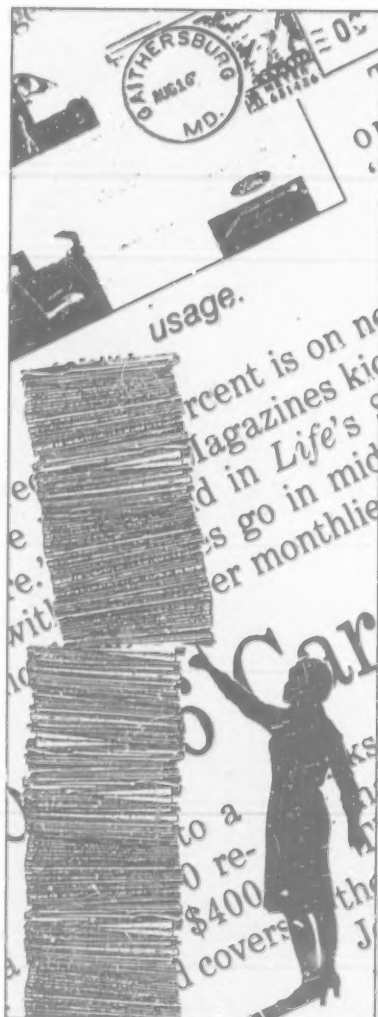
# Agencies to magazines: Keep it close to 7%

With paper and postage under control, advertisers hope for rate hike relief.

**T**he coming year could be a particularly tough one for magazines which ask for ad rate increases exceeding 7%. At least that's the view of many agency media directors who show evidence of digging in their heels on the magazine page price issue this year.

In their opinion, self-serving though it may be, magazines have little basis in asking for major increases in the 1986 year. These media directors further warn that if magazines do ask for substantial price hikes, they are unlikely to get them from advertisers. Clients, they say, are concerned about the general economic wobbliness and are looking to preserve their own under-pressure profits. Ad budgets, therefore, will be coming under greater scrutiny, with the prospect looming that advertisers will have to make hard choices when purchasing media, and one way to decide is to look at price differentials.

"There is little justification for any magazine to hike its rates beyond 5% to 7%," insists Leo Scullin, vice president and director of print and new electronic media at Young & Rubicam. The only exception to this range, allows Scullin, is "for those magazines that are in great demand." As Scullin sees it, "it will be a particularly critical year for magazines because the cost of paper as a rationale for increases has



disappeared and postal costs have stabilized."

Michael Drexler, executive vice president, director of media and programming at Doyle Dane Bernbach, agrees with Scullin's analysis. "We're estimating a 7.5% increase in 1986, which is somewhat lower than the 8% to 9% increases prevailing over the last few years," he says.

In addition to these factors, intense price competition both within and outside the consumer magazine medium could also help bring cost relief to advertisers. It already has led to the much-debated practice of negotiating versus paying the rate card fee for magazine space.

Robert Coen, vice president, director of forecasting for McCann-Erickson, believes that if titles begin to really compete against one another, planned-for rate increases, set to go into effect in mid-1986 following the "signing, sealing and delivery" of rate changes at the start of the new year, could be stalled. The fickle nature of most advertisers also threatens magazines, notes Coen. Procter & Gamble and General Foods may be broadening their usage of magazines, but, he claims, they will shift dollars overnight to another book or medium if there is a price advantage.

The Campbell Soup Co. wants to be

### Summary of Responses to MPA Financial Surveys 1982-1984

(Amounts expressed as a percentage  
of total magazine revenues)

|                                         | 1982   | 1983   | 1984   |
|-----------------------------------------|--------|--------|--------|
| Total number of magazines reporting     | 192    | 154    | 172    |
| Revenue                                 |        |        |        |
| Net advertising revenues                | 50.19% | 49.87% | 51.91% |
| Gross subscription revenues             | 33.32  | 33.70  | 32.97  |
| Gross single copy revenues              | 16.49  | 16.43  | 15.12  |
| Total magazine revenues                 | 100.00 | 100.00 | 100.00 |
| Advertising expenses                    | 8.80   | 9.15   | 9.47   |
| Circulation expenses                    | 24.74  | 25.07  | 24.83  |
| Editorial costs                         | 8.24   | 8.40   | 8.66   |
| Manufacturing and distribution expenses | 39.51  | 36.90  | 36.55  |
| Other operational costs                 | 3.37   | 3.27   | 3.31   |
| Administrative costs                    | 6.58   | 6.32   | 5.89   |
| Total magazine costs                    | 91.24  | 89.11  | 88.71  |
| Operating profit (before taxes)         | 8.76   | 10.89  | 11.29  |

Date: MPA/Price Waterhouse Financial Survey

counted in this hard-nosed crowd. "Frankly, magazines are asking for another 8% rise because that's what they believe they can get," says George Mahrliq, director of media services. But if media inflation continues unabated, Mahrliq warns that advertisers could opt for a different media mix. "Our competitive situation demands that we use television, so magazines

could be cut entirely," he shrugs.

Over at Chesebrough/Pond's, a more temperate view reigns. Joe Campion, the director of media services, points out that media inflation has made television unaffordable for many smaller brands. While he notes that "we are never going to be fed up with television because it is the most dynamic medium," he nevertheless has begun to rule out tv for some of the company's smaller-budgeted brands. "The need for steady promotions and advertising for even small-budgeted brands bodes well for magazines," says Campion. "Magazines' lower unit cost, particularly in selective magazines, means you can plan a campaign to run six to nine times a year to give continuity against the target audience," he notes.

A lot of advertisers seem to agree that magazines can help further the marketing cause. Last year, when the Olympics and the presidential election drove total advertising expenditures skyward by 15.8%, magazines managed to pull in an even better year. Magazine advertising revenues were up by 16.5%, pinpoints Coen, their highest level since 1978. Ad pages meanwhile, climbed 8.5%. These ex-

penditures were spread among some 11,000 publications, according to the Ayer Directory. Ten years ago there were 9,657 titles to choose from.

An even healthier sign is that profit margins are improving. The average pretax operating profit as a percentage of revenue for 172 magazines participating in the MPA/Price Waterhouse Financial Survey was 11.29% in 1984 compared with 10.89% in 1983 and 8.76% the year before.

While these numbers would seem to indicate prosperity, closer inspection reveals some troubling edges. For example, some advertisers worry that there is too much duplication and segmentation in consumer print categories. Advertisers already straining to stretch dollars are often being forced to make hard choices between magazines in a category. This situation is often exacerbated during weaker business times. This may explain why certain pockets of magazines are experiencing particular difficulty in maintaining ad pages and revenues. Witness the tumult in highly competitive magazine categories. For example, several publications in the science grouping are listing badly. *Scientific American* was off 35% for the first nine months of 1985, while *Science Digest* had dipped 20% in pages, according to *Media Industry Newsletter*.

#### Top 10 Magazine Advertisers-1984 (thousands)

|                |             |
|----------------|-------------|
| R.J. Reynolds  | \$193,815.5 |
| Philip Morris  | 140,070.2   |
| Ford Motor     | 97,101.2    |
| General Motors | 96,064.4    |
| AT&T           | 79,102.0    |
| IBM            | 63,098.3    |
| Chrysler       | 61,596.4    |
| Media Networks | 55,652.3    |
| P&G            | 49,734.6    |
| Lowes          | 49,254.6    |

Source: Magazine Publishers Assn.

#### Top 10 Sunday Magazine Advertisers-1984 (thousands)

|                 |          |
|-----------------|----------|
| R.J. Reynolds   | 38,076.3 |
| Newhouse Group  | 24,038.1 |
| Philip Morris   | 13,988.4 |
| Bat Industries  | 13,102.8 |
| CBS             | 12,310.4 |
| Warner Comm.    | 5,354.0  |
| Haband Co.      | 5,422.1  |
| American Can    | 5,375.2  |
| Nutrition Hdqts | 5,135.7  |
| Grand Met       | 4,478.0  |

Source: Magazine Publishers Assn.

The sluggish economy is making advertisers even more discriminating in their media choices. Magazine revenues were up 8.5% for the first six months of 1985, but more ominously, ad pages were down 1.4%.

While Coen has projected that network television will suffer the most

(with only a 3% gain in 1985) during this current slowdown, magazines, too, may be in for a rougher time this year and next. "Magazines had an excellent year in 1984, but part of the reason they're not looking quite so good in comparison is a softening in industries that are typically strong mag-

azine advertisers," explains Coen. For instance, cigarette and liquor marketers have reduced their magazine commitments, reflecting cutbacks in their own industries.

This situation, coupled with a halt of advertising monies from formerly hot categories such as computers and

## A conversation with Ken Caffrey

*Ken Caffrey is the senior vice president, executive director of media operations, at Ogilvy & Mather.*

### On the cost forecast:

We are expecting 7% increases but we don't necessarily feel this is fair. Acceptable is a better word. The question is, are there not economies which can be taken in the actual production of the advertising that would arrest these continual cost increases?

On long-term impact of upward spiraling costs: If an advertiser is using eight magazines, maybe they will only use seven. The danger for magazines is that retrenchment can occur within categories so that the third and fourth in that category suddenly finds they are missing out on a number of pieces of business that they were carrying on an historic basis.

### On the advertising economy:

There's not an awful lot of new money coming into the marketplace. So when you look at cost increases of 5%, 6%, 7%, those seem to be relatively moderate cost increases. Yet, when they impact on relatively flat budgets, the effect is reducing the power of the budget. The concern has to be the cumulative effect of these consistent increases. Advertisers are not raising their individual brand budgets sufficiently to even cover the majority of the rate increases. So, what really starts to hurt are the out-of-pocket costs, the unit costs.

### On how tv demand affects magazine rates:

It's untrue that because tv inventory is



Michael Mella

sold out, advertisers automatically flock to magazines. Even in a presidential election year when you have the Olympics too, you just don't lose that much inventory. Only about 4.5% or 5% is lost.

### On magazines' lackluster year in 1985:

We have had a relatively orderly and friendly upfront television market with no panic on inventory. The rate increases in television were planned for so there was not a call to bring in another media to achieve objectives.

But what may be happening is that there are too many magazines within categories. And with the need to make the dollars work harder, they are only buying titles that are crucial.

### On paper and postal costs:

Those are convenient excuses for publishers. I mean for years you heard about the terrible, terrible penalty that the U.S. Post Office was going to put on publishers via increased the postal rates. Yet if you look at the cost sheet

of most major publications, the cost of mailing was under 10% of the total costs of the magazine. So even a 20% increase on 10% of the cost base, is only a 2% increase.

### On readers' growing share of costs:

Up until the early to mid-70's, advertisers were asked to carry a totally disproportionate burden of the magazine. Readers were getting a tremendous bargain to build circulation to compete with tv. The question is, if all things in the market were fluid, whether you could reduce the cost to the advertisers and the readers both. You could have a real rather than artificial circulation base by giving the reader an even greater price/value relationship and still allowing the page cost to come down based upon a more meaningful circulation level. That would allow the advertiser to pay less per unit and therefore buy more units.

### On high CPM's vs. high out-of-pocket costs:

I am more concerned with a higher out-of-pocket cost. High CPM's for selective audiences is something we have become quite accustomed to and are willing to pay when we believe there is value. But, high out-of-pocket costs preclude in many cases our ability to build in-depth or continuous schedules. But it's hard to have both high CPM's and low unit costs.

### Negotiation's effect on rates:

It is futile to establish high rates and then negotiate down from them. We should pick a realistic price and use it as an absolute. I do not believe that it's necessarily true that the concept of negotiated rates will lead to lower rates long-term.

## CONSUMER MAGAZINES

utilities, have begun to hurt publishers' bottom lines. Even more worrisome is that, so far, there has been a dearth of major new advertisers to take up the revenue slack.

Magazines have not had a good track record in keeping costs under the inflation rate. Publishing costs have

soared 117% since 1977, according to the Magazine Publishers Association. The CPM for a four-color page in an average of 50 leading magazines has risen by 23% over the last four years while the Consumer Price Index has risen 20% over the same period.

Postal costs for most consumer mag-

azines, which are mailed second class, were increased last spring by 15%. The Magazine Publishers Association believes that another hike will not occur until sometime in 1987, or optimistically, 1988. The association predicts that rates could rise another 14% at that

*Continued on page 103*

### A conversation with Dan Pearson

*Dan Pearson is media director at R.J. Reynolds.*

#### **On magazine cost expectations:**

We're looking at absolute cost increases in the area of from 7.5% to 10%. The effect of those increases won't be so great because they will occur at different times of the year.

#### **Reaction:**

This year, almost for the first time, I feel that things may be getting out of hand.

The rates aren't as fair or justified as they have been in the past year. I understand the publishing business is faced with uncontrollable costs like paper and postage. But, in the context of lowered inflation, at the very least they could have made a bigger effort to demonstrate that they had tried to cut costs everywhere to keep overall cost increases to the bare bones. I have not sensed an attitude on their part in trying to sell us in that regard. It sort of represents an attitude of 'I gotcha'—like another year, another 8%.

If you wanted to look at their side of the fence, broadcast prices by comparison are continuing to go through the roof. That is where the real game is being played.

#### **On the net effect on advertisers' budgets:**

Since their prices are going up faster than our budgets, what happens is you run out of money before you add that last insertion in the titles you are in.

#### **On the economy's impact:**

I think this year, there's a general conservatism in the consumer advertising



business because of uncertainty over how the economy is going to respond. If you count last year as the start of the comeback and 1985 as the second year of the recovery, usually the economic signs would be more positive.

#### **On negotiated rates:**

Below-the-table deals really upset me, especially since they're in the context of a lower inflation rate and rising ad prices. If they can afford to do that, there's something haywire. Strict off-the-rate card deals are happening in the more competitive magazines. But there are also above-the-table deals, which are occurring across the board. This is where you are offered multi-year discounts or group title discounts. Obviously they can afford that. I would rather see lower rates on the rate card than all these bags of tricks. They are sowing some very serious seeds of destruction.

#### **On media alternatives:**

We can kick and scream and tear out

our hair. But there is not a hell of a lot that can be done. It comes down to who needs who the most. Moving out of traditional media vehicles into things like point-of-purchase is one of the real alternatives we would have to the extent that we can find ways to motivate consumer behavior. But we are not doing it as a retaliatory measure. However, the fact that we are not happy with magazine cost hikes may make it easier to justify moving out of magazines.

If we were sitting here in the perfect world, and we felt the rate increases were too high, we would shift a lot of money into television. We wouldn't shift more into outdoor, not at the levels we're already spending. Not into newspapers either, because newspapers have a major cost disadvantage in comparison to magazines.

#### **On increased targeted marketing as an option to reduce costs:**

We are already tightly targeted demographically. But we are putting an increasing amount of emphasis on geographic targeting, so in that sense our showing of favor to local media could be detrimental to national magazines.

#### **On recommendations for publishers:**

Put a little more emphasis on justifying the increases they have. Also, to demonstrate that they've done something internally to manage costs. They are doing a better job as a medium of profitably managing their circulation and not just buying circulation to get their rates bases up. There isn't the stigma to lowering rate bases the way there once was. Both sides of the fence recognize that if they don't manage it profitably they could face *Life's* former predicament.

## MEDIA COSTS BUSINESS PRESS

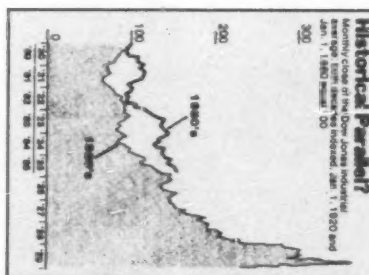
# "One more time" for the business press

Publishers say costs won't drop with inflation; planners don't buy the reasons.

"It's been going on now for seven or eight years," moans Edmund G. Norwick, Jr., a vice president at Griswold, Inc. and chairman of the American Association of Advertising Agencies' Business-to-Business Committee. "It's just automatic. Every year, good or bad, they wave the four P's — personnel, postage, paper and printing — at us, and we have to either use their books or drop their books. Some of our clients bitch like hell, but there's nothing they or we can do about it. We're trapped."

If they had them this year, it looks like media planners will have headaches and angry clients next year, too. Advertising agencies and publishers alike look for rates to jump between 6% and 9% in 1986, about as much as they did this year. That's lower than the annual double-digit hikes of a few years ago, but higher than the rise of most client budgets and the rate of inflation. While publishers point to higher internal costs, disgruntled media planners are trimming their schedules, hoping for advertising packages and turning to direct mail.

Their rates are rising at a different level, but publishers rest their cases on the age-old stump: operations costs which don't track the inflation rate, one indicator on which angry planners base their gripes. "When you figure the Con-



**W**e just beat that Lorenzo. We beat him solid," shouts Harry R. Hoglander, head of the pilots' union at Trans World Airlines. He's euphoric about having clutches of Texas Frank Lorenzo, a airline labor unions. Air's bid for TWA, its pilot union threw in their support for Carl C. Iahn. The struggle for control of the nation's fifth-largest carrier was settled on Aug. 20 when TWA directors

**No** will be just a since learning TWA, it has been to keep the TWA Airlines Co. Texas Airlines Inc., Texas Airlines, still in no 8 TWA in 1979 a TWA about a friendly deal under attack last spring. **CAT FIGHT:** TWA took th

sumer Price Index (CPI)," reasons Paul McPherson, executive vice president of McGraw-Hill Publications. "you weigh in a whole basket of commodities and services such as housing and food. Our rates of inflation very often go up faster than the CPI. When customers hear the CPI is going up 6%, they assume our rate should go up about 6% as well, inasmuch as those are our cost pushes. Sometimes it's much higher than that."

For one thing, says McPherson, publishers don't own the depreciable heavy equipment that keeps costs on line. People, "the asset of the publishing business," get more expensive every year. The cost of finding, signing, motivating and compensating editorial and sales talent alone rises faster than the inflation rate. McPherson sees health-care benefits, for example, rising at the "astronomical" rate of almost 20%, while Richard J. Moeller, president of Harcourt Brace Jovanovich Publications, predicts salary costs will rise another 5% this year.

Production improvements that allow for later closings and more control over editorial pages, say publishers, can't cut costs immediately. Costs on new in-house typesetting systems are exorbitant. The Atex text-editing system at McGraw-Hill is saving on production; but first the company had to work

Colos

off its \$7.5 million bill. Besides, Association of Business Publishers Inc. general manager Bill O'Donnell points out, computerization just stabilizes the people who have to feed the machines — people who want constant raises. With advertising accounting for more than 70% of most business magazine revenues, hints McGraw-Hill's McPherson, there's no question who has to fill the deficit.

Once again, publishers are putting part of the blame on paper and postage. Moeller of HBJ, for one, claims paper costs will shoot up 10% next year and warns that a postal increase is on the way. Another publisher who fears a postal increase argues that "we have to anticipate those increases and work them into our pricing for next year."

With power, labor and wood costs escalating, Ted L. Robinson, vice pres-

ident and business manager for the publication paper and newsprint division of Champion International, thinks paper prices will be slightly higher in 1986. A spokesman for the Boise Cascade Paper Group affirms that conservative reading, explaining that printers are shortening work weeks because publishers who stockpiled coated paper last year aren't sending orders. Still, new players in the paper game will test the supply: One estimate, from the Magazine Publishers Association's "Paper Outlook," predicts consumption will rise close to 7%. Paper makers estimate that catalog-printers and other non-magazine users, whose number-5 grade stock has effectively doubled since 1985, are dipping into the supply at a rate of 10% to 15% a year.

According to a higher-up at the International Paper Company, the for-

eign suppliers, who increased their exports of coated magazine stock by almost one-third this year, have now claimed almost 9% of the magazine market and underpriced many of their U.S. competitors. So while publishers are using more paper than U.S. mills can produce, they aren't paying the premium prices they were two years ago.

Publishers may be holding their breath on a postal increase, but David Minton, Washington counsel to the MPA, will be surprised if rates rise before 1987 for magazines. If anything, he says, publishers should be better off six months from now, since the inflation drop promises more mail — which means lower costs — and ongoing MPA negotiations may bring greater postal discounts for publishers who sort their shipments themselves.

## A conversation with Fred Poppe

*Fred Poppe is chairman and chief executive officer of Poppe-Tyson.*

### On corporate ad spending in general business publications:

I think that's got to take away from trade advertising. Clients who have been heavy product-oriented companies and all of a sudden, to sell stock or keep on the acquisition trail or boast about their multinational capabilities, decide to come up with a corporate campaign, may increase their budget to do that, but they must take some away from the trade books.

### On production costs:

You know, the terrible thing I see is that trade magazine production is going way downhill. They're charging higher rates because they aren't selling as many pages, and they're cutting costs by buying cheaper printing; they're going to less expensive, less heavy stock. They're going to schlock printers, and I mean schlock. I've never complained as much as I have in the last two years to publishers about poor graphic reproduction. It's unacceptable.



### On trade magazine package buys:

It's going to make everybody more competitive. You go to the publisher that only publishes two books, and he's in competition with somebody that has 43 titles, he's going to have to come up with the CPM's equal to his competitor's. That's going to hurt. To get around that, because he isn't a multi-publisher, he may have to say, 'I'll give more merchandising aids, more free studies, I'll sell remnants,' or he may be forced to cut rates.

### On pre-printed inserts:

They get better readership, more bang. They don't have to be that expensive. Very often you can let one publication preprint all of the inserts that are going to be run in other magazines in the field plus an overrun for a mailing list. We save a tremendous amount that way — as much as 60%.

### The direct-mail alternative:

Direct mail, direct response are magical words. Once it was fashionable to buy a public relations firm, and then agencies started buying direct response organizations. The word gets around. Now . . . clients say, 'We want direct response.' We say, 'It's going to cost you \$40,000, \$50,000 just to get your lists in order.' Well, they say, 'we'll cut out these magazines.' That's where that money comes from.

### On the upper limit of rate hikes:

Advertising budgets have gotten so high that many of our client CEO's are sitting in on budget meetings, and they're just not going to take it. Absolutely not. A CEO on an account I've handled for years says 'No more, I'll cut it out.' Or he'll say, 'Okay, they're going to do that to me. I'll go black and white, no more four-color.'

## Revenues/Share Change By Publication Field

| Field                                | r   | 1984             |       | 1974             |       | r   |
|--------------------------------------|-----|------------------|-------|------------------|-------|-----|
|                                      |     | Revenue<br>(000) | Share | Revenue<br>(000) | Share |     |
| Electronics/<br>high-tech/EDP        | 28  | \$352,385.9      | 37.2% | \$49,790.8       | 18.2% | 14  |
| Retail/<br>prof. services            | 20  | 191,224.6        | 20.2  | 42,641           | 15.6  | 18  |
| Industrial markets                   | 21  | 151,304.8        | 16.0  | 91,629.2         | 22.6  | 37  |
| Pharmaceutical/<br>medical services  | 16  | 132,471.2        | 14    | 38,477.8         | 14.1  | 9   |
| Industrial services/<br>construction | 15  | 118,641.6        | 12.5  | 50,515.6         | 18.5  | 22  |
| Total                                | 100 | \$946,028.1      | 100%  | \$273,054.4      | 100%  | 100 |

\*Number of publications in the field.

Source: J. Walter Thompson Media for Business Markets

Aggregate rate projections can't track the health of trade sectors that operate worlds apart. Though months behind, industry publications waver with their markets, and the changing economy opens some ad coffers and

slams others. Of the 100 leading specialized business publications in 1974, only 46 are still on the list. Ten magazines fell off that prized ladder last year alone.

There's no question that markets are

ailing, and their magazines are suffering as a result. The mining industry, caught in a vicious spiral that's sending corporate profits down the tube by some 91% this year, looks to Gordon Publications Inc. corporate research director Perry Patterson like it'll continue to place 10% fewer ad pages in mining publications next year. For oil and petroleum magazines, their industries drowning in merger and takeover debts and reeling from international price declines, 1986 promises another 8% fewer ad pages, after a 9.5% drop this year.

According to J. Walter Thompson's Media for Business Markets studies, the smokestacks are wheezing and construction is losing its foothold. Heavy industry magazines claimed one-third of the business press market 10 years ago; now the service economy has them fighting to maintain a 15.3% share. Construction magazines have watched hardhats pack up their tools and meanwhile slid down from an 18.5% to a 12.5% share.

Overall, though, the business press gets a clean bill of health from the ABP's Bill O'Donnell. He estimates the year's end will see pages up 25,000 and revenues up \$300 million. Not all markets sputtered, notes Gordon's Perry Patterson. Engineering and construction magazines started to crawl out of the hole with a 9% gain in pages this year, while telecommunications magazines may add a 10% page increase in 1986 onto their 6% page jump this year. Since 1974, reports Bert Peller, J. Walter Thompson vice president in charge of Media for Business Markets, ad pages for the business press have risen almost 44%, while revenues have leaped almost 347%.

"The page and revenue counts say it all," says HBJ's Richard Moeller. "The business press has more credibility in the eyes of advertising agencies than it did 10 years ago. It's being looked to more today than it was."

But with revenues dwarfing page growth, media planners wonder if they aren't simply doling out relief money. Since business magazine circulations are largely too controlled for significant broadening or for competitive boasts



"Young man, do you realize the street value of a 2-month old issue of SRDS?"

that rival their consumer counterparts, many planners, says one media observer, "can't judge whether they're getting value for value."

Over the last 15 years, admits John Sias, president/publishing division at Capital Cities Communications, parent of business publisher Fairchild Publications, "it's been relatively easy to raise rates to recover not only costs, but the extra revenues that turn into profits." Soaring inflation and interest rates no industry could escape made the substantial increases — as much as 10% year after year — easier for clients to understand.

Now that inflation and interest rates are on the decline (commercial paper lending rates down 4%, the inflation rate down 0.5%, from 1984), Campbell-Ewald senior vice president/associate media director Edwin Acker expects increases of only 6% or 7%. "Rates should really be hanging in there close to what inflation is running," Acker says. "The only thing people are going to have to fess up for is postage and paper."

Business press buyers and sellers pretty much agree on the aggregate cost increase, but they differ widely, in some cases bitterly, on the causes and consequences. Between moans, Griswold's Edmund Norwick says he's asking most clients for an 8% contingency to cover increases. Ketchum Communications senior vice president/media services Herbert D. Gordon delivers the same line a bit more philosophically, pointing to rate stabilization and publishers' cost pressures. Gene Thompson, vice president/media at Meldrum & Fewsmith, Inc., is prepared for costs to step up an average of 7% to 8%.

Not even the calm ones, though, say it with a smile. Publishers have stabilized their rates of increase at nearly double the current rate of inflation, and well over the average annual increase in client budgets. Says Griswold's Edmund Norwick, "With some clients not raising their budgets at all, we'd be surprised and thrilled to get a 5% budget increase. We can't keep up with the publication rates, no way."

Since clients tend to tighten budgets

### General Interest Business Gains: Advertising Revenues by Publication

| Publication          | 1984<br>(000) | 1983<br>(000) | 1980<br>(000) |
|----------------------|---------------|---------------|---------------|
| The Wall St. Journal | \$605,000     | \$491,500     | \$230,000     |
| Business Week        | 184,782       | 156,499       | 129,950       |
| Fortune              | 111,497       | 97,121        | 55,559        |
| Forbes               | 110,000       | 84,502        | 44,892        |
| INC                  | 34,990        | 25,321        | 9,100         |
| Dun's Business Month | 10,781        | 9,691         | 8,365         |

Source: J. Walter Thompson Media for Business Markets

in tough times, the current profit picture promises some squeezing. Corporate profits are down an aggregate 10%, and some of the hardest-hit industries — metals, steel and fuels — are the arenas of the biggest players in business-to-business advertising. The more guarded economists estimate that

the year's end will see corporate profit margins down 5%.

Many agency media moguls think publishers have a lot more than paper and postage to "fess up for." To them, the rate-rise formula isn't scientific; publishers simply shoot for the highest rate increases they can get away with.

## This coupon entitles you to thousands of free consumers in Syracuse

Why? Because your ads reach so much extra spending power in Syracuse that it's like getting thousands of extra consumers free. For example, Syracusans spend twice the average amount per household on scotch,\* 28% more than average on food.\*\* And their median household income is \$3,164 above average.\*\* Let us show you why The Syracuse Newspapers are the best way to reach this profitable market. Send this coupon today.

\*1983 Liquor Marketing Handbook  
\*\*1984 S & MM Survey of Buying Power

### Syracuse. More than you bargain for.

Mail to Promotion Dept., Syracuse Newspapers,  
Syracuse, NY 13221 or call 315-470-2089.

Name \_\_\_\_\_  
Address \_\_\_\_\_  
City \_\_\_\_\_  
State \_\_\_\_\_ Zip \_\_\_\_\_



**The  
Syracuse  
Newspapers**  
Represented Nationally by Newhouse Newspapers

MMQ 5/84  
Herald-Journal  
Herald American  
The Post-Standard

A rise in actual publishing costs, the argument goes, is just an easy rationale that broader economic indicators don't support. At least one among the publishing fraternity agrees. "Cost-based justification is just a rationale," asserts Capital Cities' Sias. "Rates are market-driven, and references to costs aren't of concern to the market. The market's only concern is how effective are you in helping me communicate with my perceived audience. What your costs are is your problem. And establishing that higher base rate is one thing; selling it is something else."

Indeed. An average 8% increase "is hard to swallow" for Needham Harper Worldwide vice president/media director Bernie Newman, who sees some stormy meetings with publishers ahead. "When the inflation rate is far below that and the cost of commodities is down, that makes us especially aggressive in our meetings with magazines. There'd better be something unique going on in those marketplaces to justify the 8% and more increases they've been getting for the past number of years. 'Is it because you've lost business, and you've gotten away with

it before?' That's the kind of meetings we'll have."

As far as Ketchum's Herb Gordon can see, schedules will suffer where client budgets fall short of new page rates. Gordon speaks for many planners when he says, "We'd much rather maintain a strong schedule in certain publications than a weak schedule across the board." Rate climbs through the recession have all but ended the days of 12-time advertisers, thinks Griswold's Norwick. "With our clients," he attests, "we often ran 18-, 24-time schedules. Now we're

## A conversation with Russell Berg

*As director of marketing communications for Hewlett-Packard Co. for 20 years, Russell Berg has overseen the multinational company's computer and instrumentation promotion through various media.*

### Making budgets:

Whether it's trade or non-trade, the only reason you use media is to gain a competitive advantage in the marketplace. I think that people who look at cost per thousand as one of their principal criteria are insane. They overlook all the fundamentals on which competitive advantage resides. What you look at to get competitive advantage is the source effect of the medium you're being asked to buy. How is it perceived? What value does it have? How do these people who receive the publication view it?

I don't look at bingo cards or response, but at the source effect: signs of the reader's time, respect and trust. Those are the values that, to me, transcend cost per thousand and all the other nonsense which tends to dominate the media business.

You've got to read a lot of trade magazines to do that. And I have a feeling that most of the people who run media departments in ad agencies don't read any magazines. It shows up in their preoccupation with numbers. There is too much quantitative evaluation being done.



Ed Koshi

### On reading the research:

I think there's more reliance based on spurious numbers that look good, and people buy on these numbers because they don't know how to read a circulation statement. The average guy couldn't even tell you what a renewal percentage or the turnover of an audience means.

They buy impressions; they buy 'reach frequency.' To my way of thinking, reach frequency is a crap shoot. It represents nothing more than an extrapolation of the way television has been bought because television didn't have anything better in the way of an audit.

### On general-interest vs. trade:

I think a lot of people buy trade mag-

azines largely because they can relate to them one on one. A lot of people don't understand that people are human, readers are human, even if they're engineers. They'll read broadly because they read beyond the narrow scope of their own specialty. In a world that's being dominated more and more by specialization, it becomes almost incumbent on a person to read more broadly than his specialty, otherwise he's in danger of turning out to be obsolete.

There will be a useful market, certainly, for some of the highly specialized publications. If one wanted to look for a competitive advantage, it would be to reach some of these specialists in a broader environment, where they're going to be reading not only for their specialty but also to broaden their horizons.

### On direct mail:

I think direct mail has become overpowering and overbearing and overdone. It's a glut. Direct mail that does not carry a well known brand, I, for one, do not even look at.

If Hewlett-Packard does a direct mail piece to some of its customers, the name Hewlett-Packard has some significance, so there's a very good chance people will open it and read it. If, on the other hand, a piece of unsolicited direct mail comes with the name of XYZ company on it that someone hasn't heard before, it's unlikely he'll open it.

down to 10-time schedules and 5-time, even 4-time schedules. That's never happened before. Six-time schedules used to be our absolute minimum."

Although some planners look for business magazines to broaden their editorial sights, Reese Musgrave, vice president of sales at Lebharr-Friedman, contends they'll stay "targeted toward a chosen audience, highly selective," McGraw-Hill's McPherson concurs. "We are the original demographic business," he claims. "We are finely honed, finely tuned. That is our beauty."

But "there's less confidence among clients now," says Thompson of Meldrum & Fewsmith. "Of the clients we have, there's less enthusiasm for trade campaigns, more enthusiasm for consumer campaigns. It's a recognition of the need to be more horizontal in our message." Oddly enough, he notes, business magazine salespeople "seem to be calling on less people up and down the line."

Meanwhile, action is heating up on the corporate campaign front. Robert Hogan, editorial director of Folio's *Ad*

### Business Magazines Sources of Revenue

|       | Adver-<br>tising | Sub-<br>scriptions |
|-------|------------------|--------------------|
| 1970  | 71.1%            | 28.9%              |
| 1977  | 71.6             | 28.4               |
| 1978  | 72.6             | 27.4               |
| 1979  | 71.1             | 28.9               |
| 1980  | 69.0             | 31.0               |
| 1981  | 70.0             | 30.0               |
| 1982  | 70.2             | 29.8               |
| 1983  | 67.7             | 32.3               |
| 1984  | 70.0             | 30.0               |
| 1985* | 71.5             | 28.5               |

Source: James B. Kobak

\*estimate

*Guide*, reports that purely image advertising — campaigns that can't be classified by product category — grew 98% in 1984. Planners have been trying to move trade-concentrated clients into broader and more visible campaigns in general interest business magazines for years. Higher trade costs, explains Campbell-Ewald's Acker, open clients' ears — particu-

larly if what they need is umbrella exposure. Once costs push them to consumer media, says one industry researcher, their egos will keep them there: "Presidents can't resist having their neighbors recognize their status through ads in *Time* and on football game telecasts."

For Donna Campanella, vice president and media director at Cato Johnson/Y&R, the new avenue is regional and demographic editions of general interest business magazines as a way of discounting their high costs.

To compete, Sias guesses business publishers, too, will favor discounting aimed at multi-page insertions over base rate cuts, figuring a discount seems cheaper and produces greater frequency without jeopardizing business at the existing rates. "There's a greater cost-consciousness among publishers," Sias notes. "There's a definite awareness that the amount of marketplace competition and the condition of some industries mandates that magazines be more innovative in how they price."

Continued on page 95

## The market and the media to make travel advertising take off.

People are taking off all over Pinellas County, home of the St. Petersburg Times and Evening Independent. Last year 79 percent of all adults here took a business or

pleasure trip. This year, for the first quarter, travel was up 6 percent at Tampa International Airport.

St. Petersburg is also home to a new cruise port facility and with good reason. Six percent of vacationers here took a cruise in the past 12 months. That's twice the national average.

Your travel advertising in the Times and Independent gives you the bonus

of 2.9-million visitors to the county each year... you get travelers coming and going.

So today, call your St. Petersburg Times and Evening Independent representative today...and watch your travel advertising take off.

**St. Petersburg Times**  
evening  
**Independent**

P.O. Box 1121  
St. Petersburg, FL 33731  
General Advertising (813) 893-8249

Represented nationally by Story & Kelly-Smith, Inc.



# Newspapers have a surprise for agencies

The publishers' increase estimates fall short of what the agencies are expecting.

**A**dvertising agencies making up next year's newspaper schedules are trying to make sure they run into no surprises when they see 1986 newspaper rate cards.

These agencies are keeping one eye on the double-digit rate increases that marked the first half of this decade (see chart), and they are asking clients to add rate-rise contingencies of 8% to 9% for their 1986 newspaper space.

But newspaper publishers are going to surprise them by keeping their eyes on the expected 4% inflation rate. From that base, publishers will calculate their 1986 rates, adding increases for cost and circulation rises.

Further, newsprint, the villain of previous rate cards, is now in the same boat as oil — there's a surplus. International Paper closed one newsprint mill recently. Six times in recent months the mills have tried to increase their price tags to \$570 a metric ton, and six times they've had to abort the rise. A September increase is expected; at press time the rate was still \$535.

One big reason for the newsprint surplus is that so much newspaper advertising has shifted into inserts, using magazine stock supplied by the advertiser. Pressures on magazine stock have brought price hikes, and the coupon insert syndicators are actually calling for rate decreases.



## On the agency front

*Decisions* asked a sampling of agency newspaper buyers to give us a picture of the contingency plans they are proposing to clients for the coming year. Their responses:

Thurman Pierce, J. Walter Thompson: "8%."

Jack Cohen, Doyle Dane Bernbach: "9%."

Richard Gallagher, McCann-Erickson: "We're following our own Bob Coen — 6%."

John Meskil, Warwick Advertising: "8%."

One agency man who asked to be unnamed was asking 10%. And one big agency is asking for no contingencies. "That would just inspire the newspapers to raise rates."

## What the newspapers are planning

Maurice Buchart, vice president, general manager, *Louisville Courier Journal and Times*: "We won't settle on a firm figure until September 1, but we're trying to hold the increase to 6%."

Sheldon Lyons, vice president, marketing, Westchester Rockland Newspapers: "With inflation at 4%, we're looking at a 5% to 7% increase to recognize our 5% daily and 8% Sunday circulation gains."

## NEWSPAPERS

### Top 10 National Newspaper Advertisers — 1984 (thousands)

|                      | 1984      | 1983     | % change |
|----------------------|-----------|----------|----------|
| General Motors       | \$109,359 | \$88,579 | +23.5%   |
| R.J. Reynolds        | 101,990   | 112,343  | -9.2     |
| Philip Morris        | 69,023    | 65,272   | +5.7     |
| Ford Motor           | 62,063    | 49,603   | +25.1    |
| American Tel. & Tel. | 58,200    | 71,995   | -19.2    |
| RCA                  | 36,962    | 31,716   | +16.5    |
| IBM                  | 36,036    | 11,720   | +207.5   |
| Chrysler             | 34,962    | 31,846   | +9.8     |
| Delta Air Lines      | 26,331    | 31,810   | -17.2    |
| Sales                | 25,317    | 27,803   | -8.9     |

Source: Media Records

Ferguson Rood, advertising sales director, *Atlanta Journal and Constitution*: "National in January will probably reflect a combination of the inflation rate and our circulation rise of 8,000 daily, 28,000 Sunday. We're pricing stand-alone rop sections to be competitive with inserts."

Roger Clapp, advertising director, *Richmond (Va.) News Leader and Times Dispatch*: "We're going to try to keep up with the 4% inflation rate.

A 5% to 6% increase would be more realistic. Our preprint rates will stay pretty flat. We're keeping an eye on direct-mail competition."

Jerome Tilis, president, *Detroit Free Press*: "Detroit is no ordinary market. In our battleground between two newspapers for share of market, the elements of pricing are often ignored, he concedes. "Rates need to move up, but we'll keep our national rise to under 10%."

### Consensus of the reps

*Decisions* asked the national reps attending the Milwaukee meeting of the International Newspaper Advertising and Marketing Executives (INAME) to bring back an informal estimate of their newspapers' 1986 rate intentions. (A formal estimate would have created an FTC problem.) Here are some replies:

William O'Flaherty, executive vice president, Knight Ridder Newspaper Sales: "Six percent would be a good figure for rop rates. On inserts, we're trying to keep the rates unchanged, or, at most, up 5%."

Joseph Lafferty, chairman, CEO, Branham Newspaper Sales: "In rop space, we're estimating a 7.5% increase. Just 4% for one-time, single-sheet solo inserts; 2% on the CPM's of our largest inserts."

States Tompkins, president, Cresmer Woodward O'Mara & Ormsby (CWO&O): "I'm hearing increases between 6% and 8%."

William Shannon, senior vice president, retail marketing, Gannett Media Sales: "Increases won't be as high as they were last year. Most Gannett papers are thinking in the 6% area."

Richard Matula, vice president, sales director, Newhouse Newspapers: "Rop will be up 5% to 7%. Inserts will remain stable."

Spokesman for Times Mirror Na-

### A conversation with Fran Canary

Fran Canary is associate media manager, Brown & Williamson.

#### On Newsplan:

As a consistent user of newspapers, we are glad to see newspapers now offering volume discounts to national advertisers. Naturally, we are taking advantage of them. However, even with discounts, our rates are far above what the retailer pays according to the latest American Association of Advertising Agencies' report. Newspapers still have a lot of work to do here.

#### On rop color:

We consider newspapers essentially a black and white medium. However, we

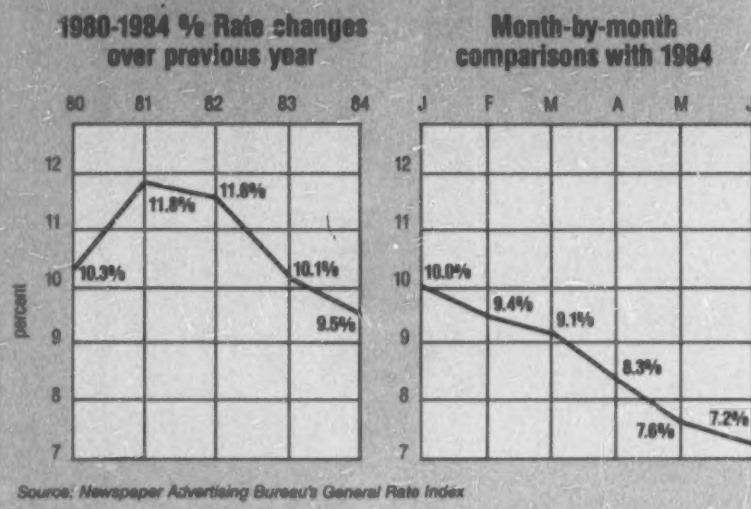


have considered rop color, and now that the Gannett Color Network is packaging the quality color newspapers, our agency has been evaluating this offering. We might use color, but it must be able to match our marketing pattern and objectives.

#### On Standard Advertising Units:

SAU's have sped up our production work and cut down on production costs. They have made it possible for our planners to order one size advertisements for all newspapers. Most important, SAU's are helpful in determining space rates and making it possible to compare costs from one newspaper to another.

### The Cooling Trend Continues in Newspaper Rate Increases



tional Marketing: "If I had to give one increase figure for all of our newspapers, I'd say 8%."

Roy Blackfield, president, Sawyer Ferguson Walker: "Everything will be

below double-digit increases. But our papers range from some with strong circulation gains to the *Newport News-Hampton Press* which will cap its national rate as a first move towards nar-

rowing the national/retail differential. If you want one number, say 8%."

Jerry West, president, Story & Kelly-Smith: "As in the last two years, our papers' rates will keep in line with the rate of inflation and their circulation increases."

Kingsley Anthony, president, Million Market Newspapers: "Rop will be up about 8%, except for certain papers with substantial circulation gains which will rise 9% to 9.5%. As for preprints, the feeling is for moderation — say 6%."

Robert Keim, vice president, regional manager, Landon Associates: "The very few of our papers which are already looking at 1986 rates fall into 8% to 10% for rop, and a small, if any, increase for preprints."

Robert Hanson, president, U. S. Suburban Press Inc. (USSPI): "Increases look to be in the 4% to 5% range."

The easy-to-spot trend that surfaces in these reports is the smaller, guarded increases in preprints versus rop.

### A conversation with Richard Gallagher

*Rick Gallagher is vice president and associate planning director with McCann-Erickson Worldwide. He also serves as this year's chairman of the American Association of Advertising Agencies' Newspaper Committee.*

#### On Newsplan:

More [advertisers] would use Newsplan if publishers had the flexibility to recognize how national advertisers use newspapers. Advertisers don't write complete schedules up front. As marketing occasions arise, they work up to a Newsplan discount rate little by little.

#### Color in newspapers:

I think there's some trial that's going on here. Not all papers offer four-color reproduction, and of those that do, not all of them offer good reproduction. Some of our clients are definitely interested in that and are experimenting with it.



#### Color's effect on newspaper investments:

There are things that are going on that are leading to regional marketing strategies and, if that's the case, then the opportunity for national advertisers to use four color in newspapers may be

an opportunity for newspapers to attract more national dollars . . . There is a possibility that, if newspapers really get their four-color act together, they could take money from other [media] areas.

#### The rate differential:

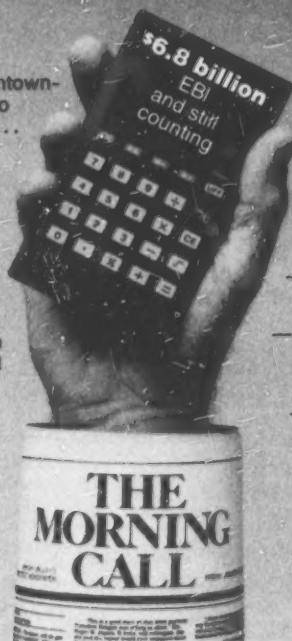
Speaking for McCann, I think that the issue has to do with the absolute cost of buying newspapers. That cost doesn't really have much to do with what we are charged vs. local guys. We have to look at newspapers vs. other alternatives on the basis of their absolute costs.

#### Increase projections:

Bob Coen [McCann's senior vice president and director of forecasting] is really looking for a lower rate of increase, perhaps in the area of 6%. What we should say as an agency is that, based on the economy and what we see happening with our advertising budgets, we don't see why newspapers should be raising rates at all.

## Your Strongest Selling Arm in Pennsylvania's 3rd richest market

The still-growing Allentown-Bethlehem MSA. It's so close to Philadelphia... you may figure that a Philly-based media buy will cover this important market. But by all accounts, no Philadelphia daily reaches more than 2%... and that could cost your company its fair share of \$796 million in food sales, \$552 million in automotive, \$370 million in department stores, \$3.3 billion in total retail sales. The Morning Call, reaching into nine prime counties in northeast Pennsylvania.



Look at our strength in these numbers:

- 57% daily coverage of 495,000 MSA adults and growing
- 66% Sunday coverage and growing
- Growing penetration into five additional counties
- a C.P.M. far less than any other daily reaching into our circulation area
- Simply the most efficient way to punch up a stronger increase in your Pennsylvania sales

The Morning Call  
Allentown, PA  
(215) 820-6634  
Represented by  
Cremer, Woodward,  
O'Mara & Ormsbee, Inc.

## NEWSPAPERS

Newspapers may still be a monopoly in some markets when it comes to rop, but with inserts they now have an aggressive competitor whose main asset is cost efficiency — the Postal Service's three-in-one mailing.

### As for that rate differential

The Milwaukee meeting of the International Newspaper Advertising & Marketing Executives (INAME) saw

### Costs based on dollar equivalency could close the gap between national and retail newspaper rates.

much discussion of the national/retail rate differential in light of the American Association of Advertising Agencies' recent report showing a widened gap of 60.52%. Though agencies remain somewhat skeptical on the industry's intentions, publishers recognize that 54% of retail volume now comes from national chains and national advertisers like IBM and AT&T which are busily opening local stores.

Newsplan, which offers to let national advertisers earn lower rates by frequent use, hasn't worked to quiet the fury over the situation. National advertisers still want rates equal to retail for their one-shot promotions.

There is some activity on this front. Sawyer Ferguson Walker's Blackfield, as mentioned above, reports that its *Newport News-Hampton Press* paper is raising retail, but not national, to narrow the gap. Branham reports several of its smaller papers will be starting all advertisers at the same open rate, with retailers earning contract discounts when they reach 13-pages or more in volume.

The most widely discussed solution is rates based on "dollar equivalency" for both national and retail. This would allow the big, multi-product advertisers to match up their total newspaper expenditures against the retailer's billings and earn a comparable rate.

Lionel Kaufman



## AMERICA'S 82ND MARKET IS ALSO AMONG AMERICA'S TOP 8 CITIES!

**H**arrisburg, Pennsylvania. America's 82nd largest metro area is now in elite company. USA Today and the Citizen's Forum on Self-Government named Harrisburg one of the nation's top 8 cities this spring.

An ad in The Harrisburg Patriot-News captures 62% of the adults of this "All-America" city daily and a 79% audience share on Sundays\*.

Get details from Bob Coughlin, at The Patriot-News (717) 255-8203, or any office of Newhouse Newspaper Sales.

\*Belden Associates, 1983

**HARRISBURG PATRIOT-NEWS**

A Newhouse Newspaper

**cpu** CENTRAL PENNSYLVANIA MARKET

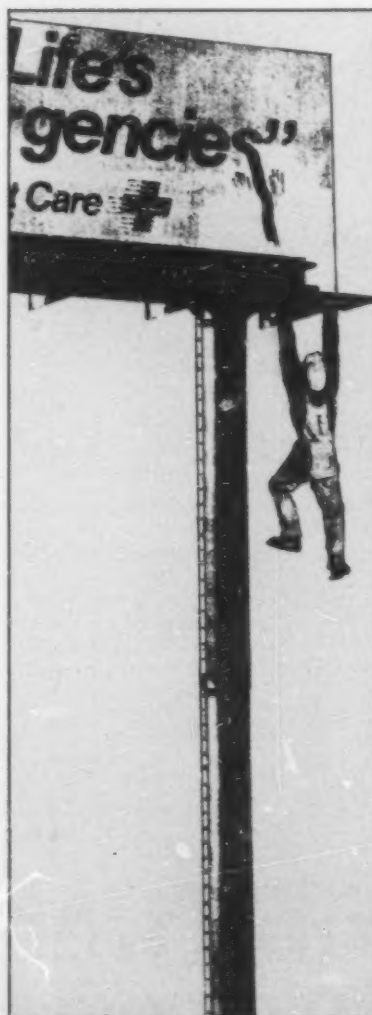
# Outdoor's rate forecast: a cool 6%-to-7% rise

Since the 1983 posted increase of 15.7%, outdoor costs have cooled to an average of 6% to 7%, and they appear to be continuing this trend into 1986, according to opinions from outdoor advertisers, agencies and suppliers.

A variety of factors, at times pulling in different directions, have combined to allow the industry to hold cost increases in this range despite the industry's reliance on such vagaries as real estate and labor costs to establish its base. Though plants differ by a point or two, from a low of 6% to a high of 8%, the industry as a whole reflects an increased willingness to present clients with costs more in keeping with the cross-spectrum inflation rates.

Dan Pearson, director of media for R.J. Reynolds — the biggest outdoor spender in 1984 — predicts, "We're looking at about 6%, down from last year. It tracks much more with the general Consumer Price Index (CPI) as one of the major components for outdoor is labor; it's a labor-intensive industry. And labor rates tend to track the CPI — closely."

More and more clients are expecting to see outdoor cost increases follow the CPI as a rule, while some, like Bernie Stolbof, director of corporate media services for Seagram's, feel increases should be no higher than the inflation



rate (see sidebar, page 83).

The expectation to see price increases align more closely with general financial indices can perhaps be traced back to Foster & Kleiser's 6% increase in 1985, which was just one and one-half points above the CPI and which came as a bit of a shock to the industry. F&K had upped their rates by 9.9% in 1984, and some suggested the more conservative rise in 1985 was little more than making up for over-pricing in the past. Dean Jacobs, Foster & Kleiser's executive vice president, sees it in a slightly different way. "We feel the advertiser has been burdened with high rate increases for a number of years. The time has come when we have got to be able to justify rates."

For 1986 Foster & Kleiser will post a rate increase of 6.5%, again lower than the national average, though this year they are not pointing to the CPI as their guide. "The CPI is not really what we're using this year," admits Jacobs. "What we're trying to do is hold as tightly as possible to what we did last year."

Specific rates will vary from market to market, with a high of 7% for California, due to the variables as regional labor and site rental costs. One of the traditional justifications for increases, higher circulation values, is no longer a major influence, according to Jacobs.

"Traffic circulations are not increasing as they have in the past. They are staying level, with increases in only some minor cases." Jacobs does note there is a possibility that this may change because of the fall in gasoline prices.

The most significant factor in the outdoor cost picture is the trend of skyrocketing real estate costs. Competition for site locations among various plants is heating up in most markets, and when zoning regulations come into play, that competition really sizzles.

Jacobs also points to lighting costs as an influence. "They continue to go up, depending on the market. Energy costs have leveled somewhat, but there was a period, particularly in the Eastern markets, when the energy costs were going up and up so that we couldn't keep on top of them."

If anyone is feeling that energy pinch, it's Gannett Outdoor. As part of their "product enhancement" that went along with a major restructuring effort this past year, Gannett is now guaranteeing morning illumination. The 6:00 A.M. to dawn period that this covers includes the all-important drive time in certain parts of year. Gannett's average rate increase is at 7% and, with some markets like Kansas City increasing only 4%, it's clear others will rise beyond that figure.

John Hope, executive vice presi-

| Top 10 Advertisers<br>in Outdoor-1984<br>(Thousands) |          |
|------------------------------------------------------|----------|
| R.J. Reynolds                                        | 86,954.8 |
| Philip Morris                                        | 54,850.7 |
| Loews Corp                                           | 28,647.3 |
| Seagram                                              | 16,732.1 |
| Bat Industries                                       | 12,088.8 |
| American Brands                                      | 11,894.4 |
| Hiram Walker                                         | 7,759.8  |
| General Motors Corp,<br>Local Dealers                | 7,022.4  |
| National Distillers                                  | 5,669.5  |
| Anheuser-Busch                                       | 5,514.4  |
| Source: Leading National Advertisers                 |          |

dent, sales, for Gannett's Eastern division, believes that the 7% could have gone even higher due to labor and site costs. "Those are probably the two biggest factors explaining why we're going up 7%," Hope explains. Noting the restless, and conservative, moods of advertisers at the moment, he adds, "We don't think we can go to our advertisers and ask for more money."

Paper is expected to show increases below the inflation rate, between 3% and 4%, thus further cooling any im-

pulse to push for higher increases.

Gannett and Foster & Kleiser are the two largest outdoor companies. Hope explains the 0.5% difference in their respective increases with reference to Gannett's higher concentration in the Eastern markets. "We compete in California, but in other Eastern markets, we're incurring bigger union and operation costs."

Beyond these two giants, Creative Marketing Services, based in Atlanta, has recently introduced a computer data base covering rate information for all the major markets plus numerous smaller markets throughout the country. The rate information covers 30-sheet and eight-sheet posters as well as rotary painted bulletins.

Alice Vantrease, president of CMS, estimates costs to rise in the 6% to 7% range in 1986, with rates naturally varying on a market-by-market basis. She sees a high of 9% and a low of about 5.5% within this framework. Her estimates are based on data gathered by CMS for the computerized service. Strongest influence on prices, according to Vantrease, is a softening of demand because of the pullback by cigarette companies and other major advertisers. This leaves outdoor holders in the position of luring in new categories — and they can do that more readily if they keep costs under control.

## A conversation with Martin Mullany

*Martin Mullany is president, Out of Home Services, an agency that makes outdoor buys for other advertising agencies.*

### On rate increases:

We think the rate cost for posting will probably increase 6%-7%. Painted bulletins we estimate at 7-8%. Transit we're estimating at 8-10%. Transit is probably only about 8% of the entire outdoor universe; it doesn't make that big a difference in anybody's budget.

### Factors behind increases:

There are no real factors except for the standard inflationary factor. This year it's about 3%-4%. There is probably a slight rise in circulation, due to lower gasoline prices.



### On backlights:

Backlights are increasing as a portion of outdoor. But I'm not sure backlights

are a long-term thing, or just short-term. They tend to be used by advertisers for longer durations than poster showings. I think there's a transfer of dollars here, but I don't think it's bringing anybody new into the medium — it might be a gimmicky factor.

When you get into backlights, you become increasingly cost conscious. You have to buy fewer locations. You have to rely on a nighttime exposure. I think it's great if you're R.J. Reynolds, but if you're targeting a certain kind of audience and want something done now, you look around and realize these things are really not available everywhere. In fact they're not available in most places. So unless they become available in most places, they're really not a medium, they're sort of a tactical marketing tool for most advertisers. For most advertisers, they have limited applications.

## OUTDOOR

On the horizon, a new factor has been tossed into the equation: the expanding use of backlights. Long popular in Canada, backlights have been slowly edging into the States and they have begun to gain momentum throughout the country.

Backlights have their widest use in outdoor bus shelters. Connie Barry, president of Transtop Minneapolis Inc., and also president of the Shelter Advertising Association, estimates that costs for the industry rose a modest 5% in 1985, and that this would again be the increase for 1986. SAA represents 25 companies that build bus shelters in the U.S., Canada, Puerto Rico and Mexico. They maintain the shelters and line up advertisers for the space. Barry says the average cost for such exposure is \$250 a month per panel.

Backlights are also used in malls and, most recently, telephone booths. The medium, however, is also getting some play as an attention-getter in 30-sheet form.

These backlights consist of a sheet-metal box, about 18" deep, called the "can," containing fluorescent tubing and faced with sheets of Lumiflex, a translucent flexible plastic, with an image either painted or silkscreened.

### Cost/Panel Based On Top 50 Metro Markets

|      | 1977   | 1984   | Index | 1985   | Index |
|------|--------|--------|-------|--------|-------|
| Jan. | 167.08 | 336.72 | 201   | 359.54 | 215   |
| Feb. | 167.08 | 336.72 | 201   | 359.54 | 215   |
| Mar. | 167.08 | 336.72 | 201   | 359.54 | 215   |
| Apr. | 167.08 | 336.72 | 201   | 359.54 | -     |
| May  | 167.08 | 337.11 | 202   | 360.19 | -     |
| Jun. | 167.08 | 337.11 | 202   | 360.19 | -     |
| Jul. | 167.30 | 337.52 | 202   | 360.19 | -     |
| Aug. | 167.31 | 337.52 | 202   | 360.19 | -     |
| Sep. | 169.24 | 337.52 | 199   | 360.19 | -     |
| Oct. | 178.12 | 357.49 | 201   | -      | -     |
| Nov. | 178.16 | 357.49 | 201   | -      | -     |
| Dec. | 180.81 | 357.49 | 198   | -      | -     |

Source: Institute of Outdoor Advertising

Note: Index based on same month in 1977

Costs for this outdoor novelty run about 50% to 75% more than an equivalent painted poster, according to R.J. Reynolds' Dan Pearson, and as much as two and one-half to three times the cost of a 30-sheet poster panel, according to F&K's Jacobs.

Pearson says backlights are worth the premium because of this visibility advantage, and his actions back his words. R.J. Reynolds presently maintains between 750 and 800 units. An-

other major user of the medium is Hiram Walker. Gannett, sensing an opportunity, will bullishly market backlights in 1986, according to Hope.

For the present, backlights in this large form seem to be something of a specialty item. According to Martin Muliany, president of Out of Home Media Services, "For most advertisers, backlights are not really a medium. They are a tactical marketing tool."

Howard Mittelmark

### A conversation with Bernie Stolbof

*Bernie Stolbof is vice president, director of corporate media services of Seagram's, number four among outdoor's top spenders.*

#### On increases:

I can't see any justification for increases higher than the rate of inflation. Realistically, however, I would expect about 6%. Last year increases were about 6%, maybe a little higher.

#### On reasons for increases:

I think it's just pattern. All media increase rates each year. Certainly magazines increased their rates more than they should have last year, for the same old reason; paper went up.

#### On choosing markets by rates:

That's not how we market, we are not



preempted by rate increases. Disparity is a factor, definitely, but rather than changing markets, we would look at

alternate media in that particular market if the increase is excessive.

#### Overview:

There's a certain softness in the media business right now. It's sort of a Catch-22. If they increase their rates, potentially they stand the risk of losing more business. At the same time, however, they're looking at their margins.

Historically, there's a parity between outdoor and the other media, excluding broadcasting. Up until last year they were running even. Last year outdoor was a little bit less.

#### On backlights:

They're effective from a visual point, but I question their effectiveness with regards to value. When they serve their greatest purpose, at night, most market circulations decline.

# Direct marketers seek to steady rates

But advertisers continue to complain that they're too high to begin with.

**A**fter more than a year of exploding prices, costs for the direct marketing industry began to level off in the middle of 1985, and most predictions see this trend continuing through 1986. While this is good news, the bad news is that costs have stabilized at what most consider an onerously high level.

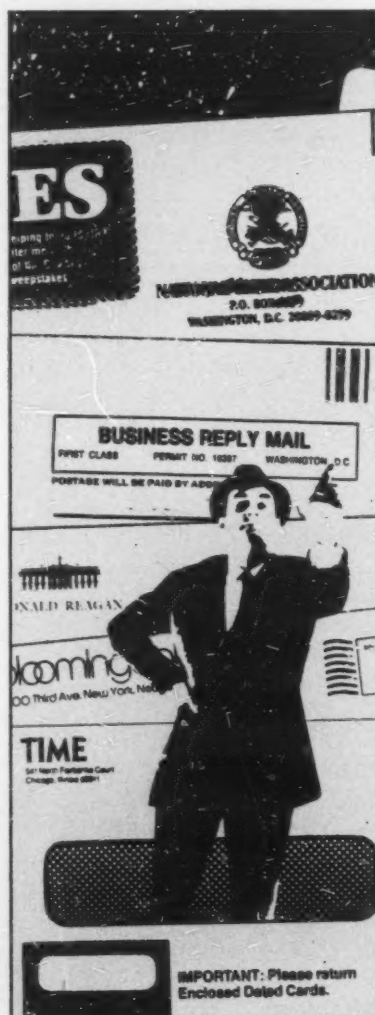
According to many industry experts, no sizeable jumps in postage rates, paper, lists or printing expenses — the key factors in direct-mail expenditures — appear to be in the offing for the remainder of 1985-1986. In all probability, price adjustments for these four components are expected to hover in the 4% to 5% range, commensurate with the inflation rate. Direct marketers using broadcast and print, however, should expect costs to exceed the general inflation rate by about 2%, estimates C. Patrick O'Donnell, Jr., vice president at Furman Selz Mager Dietz & Birney.

The more moderate increases this time around may have their cause in last year's soaring rate rises. On the average, direct-mail costs shot up 15% in 1984, with the biggest factors being the hefty rises in postal rates and paper prices. Third-class postal rates rose 13% last February, a particular blow to catalogers. Some observers are betting that direct mailers will only have two years to digest these increases be-

fore getting smacked with yet another. According to Gene A. Del Polito, executive director of the Third Class Mail Association, "With Congress having approved a subsidy for nonprofit mail in the new budget, a recommendation for further rate increases will not be made until next summer." It then takes another 12 months or so for any hikes to take place, he says. "When they do," he warns, "I fear they may be as substantial as the last time — and possibly more so." Because of the difference in the calculation of the pound weight under the February changes, "some marketers may have found their cost rates going up 25% to 28%," says Del Polito.

Some major catalogers are making revisions in the size of their books as well as the weight and quality of the paper used to try to offset some of the extra costs. For example, Spiegel, Inc., the Oak Brook, Ill.-based catalog marketer, has begun to make reductions in size and change of paper for some of its books. Circulation is "also being carefully scrutinized," tells Frank Zelasko, advertising service manager.

Spiegel spends about \$4 million annually for space ads to promote its catalogs. While the budget for 1986 has not yet been determined, no significant change is expected, says Linda Arehart, market project program manager.



Instead, Spiegel will make cuts by changing papers and formats for inserts, and catalog sections will be used, but only for specialty books, not their general merchandise catalogs. "It is a relatively inexpensive way to extend our program," explains Arehart.

The large-scale increases in paper costs taken last year have caused many companies, other than Spiegel, to alter their operating methods. Paper prices have jumped about 18% over the past 18 months, but the last increase was incurred at the beginning of 1985. Most observers believe that paper costs should stand fairly firm in 1986. "Printing prices may show moderate increases, but they should be less than the inflation rate, and may even hold level," projects John Van Horn, vice president for planning and marketing at Alden Press, a subsidiary of John Blair Co.

The improved quality of different grades of paper — including coated papers — will also tend to keep down costs, he believes. "There has been such an improvement in free-sheet paper that it is possible to drop

down one level — at the same weight — without a very noticeable difference." Van Horn maintains that competitive pressures should keep printing prices down and any increases in printers' costs can be recovered by lower paper prices.

William Nourse, general manager of Webcraft Technologies, Inc., a direct response printer based in North Brunswick, N.J., is noticing that many advertisers are converting to lower weights of paper to buffer past cost increases. "Some catalogs have already converted and many will test the lower weight paper. If this continues, there is always the possibility that lower weight paper costs will go up, but this will not happen in the next year or so, if at all," finds Nourse.

Advertisers buying lists should find prices remaining pretty even, as should fulfillment costs, predicts Roger Abelson, president of MBS/Multimode Inc. The company, based in Huntington Station, N.Y., does list maintenance. Abelson notes that prices for lists pinpointing upscale households and consumers have been spiraling upwards

since mid-1984. He says though, that these lists should top out at their current \$85 to \$90 a thousand batch, with the Neiman/Marcus list probably the highest at \$110.

"Low-priced" lists now go for \$40 to \$50 a thousand. Back in 1979, high-ticket lists rented for \$60 to \$65 per thousand.

"List prices are pretty hefty and it would appear that most will stop climbing, although there are some exceptions," says Marcella Lieberman, vice president, Listworks Corp., a list broker in Mt. Kisco, N.Y. she points to technological advances which will contribute to mailer cost-effectiveness by allowing for better demographic and psychographic mail selections. For example, she cites computer capabilities, careful elimination of duplications and more comprehensive data base information.

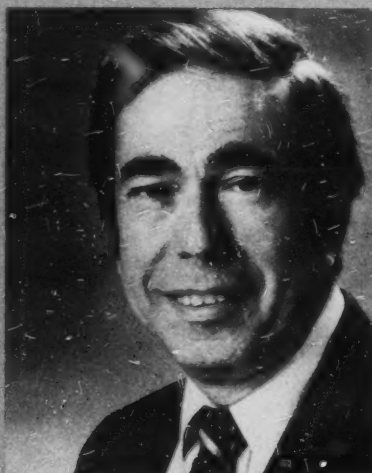
Even though direct marketing costs may hold relatively steady this year, the likelihood is that many advertisers are having difficulty digesting the previous increases. "All these higher costs will come together and the full

## A conversation with Ed Nash

*This question and answer report is with Edward L. Nash, president, BBDO Direct, New York*

**On the future of direct mail costs:**  
I see the overall cost going up 10% a year. That means more and better techniques must be developed for target segmentation. Another problem that must be solved is the inefficiency of the delivery system. The number of pieces actually delivered is increasingly under question.

**On the value of direct mail:**  
Direct mail to the right person — despite the cost — is the most powerful direct marketing technique. It brings in the highest response rate. "Conquest" mailings, initiated by car companies, are being extended to other products for more appropriate targets.



**On use of co-ops and card decks:**  
These techniques can be used to cut costs only if the product is familiar. The more sophisticated the product, the less productive they are.

### On tv usage:

Television is becoming a major factor in many campaigns. In the past, tv was not considered economical. Now, some accounts have switched as much as one-half of their budgets to tv. Everyone is acquainted with the magazine commercials and their 800 numbers. The cost in relation to the response is the way it must be measured.

### On telemarketing:

It is costly, but it is the fastest growing technique. It is most productive when a prior relationship has been established. Well-trained people are vital because the more intimate the marketing contact, the more you can affect a prospect. The dearth of good, experienced people is a problem in all aspects of direct marketing. They are very much in demand and salaries are commensurate.

impact will be felt in 1986," declares Robert J. Coen, senior vice president at McCann-Erickson Worldwide. "This will be the year when direct marketers will have to assess their campaigns on the basis of these factors."

For those who find they have to reassess their direct marketing programs for cost efficiency, other alternatives include telemarketing, co-ops and card decks as well as catalog sections, which involve uniform grouping of ads for catalogs.

Coming on strongly is telemarketing, which can be done in-house. Phone responses are usually higher than through use of direct mail, claims Geri Gantman, executive vice president of Telephone Marketing Resources, a New York company that specializes in developing and implementing business telemarketing programs.

Gantman, who is also vice chairman of the Direct Marketing Association's Telephone Marketing Council, concedes that it costs considerably more to deliver a message via the telephone than using direct mail. Still, she contends that enhanced market penetration must be taken into account, as well as the information obtained for a database.

| Top 10 Advertisers in Direct Marketing                        |                                           |               |          |
|---------------------------------------------------------------|-------------------------------------------|---------------|----------|
| Company                                                       | Direct Marketing Advertising Expenditures |               | % change |
|                                                               | 1983                                      | 1984          |          |
| Figi's, Fingerhut, Michigan Bulb (American Can)               | \$113,200,000                             | \$155,000,000 | 40.0     |
| Spiegel Inc. (Otto-Versand)                                   | 83,090,700                                | 127,727,300   | 53.7     |
| National Liberty Marketing (National Home Life Assurance Co.) | 64,100,000                                | 83,400,000    | 30.1     |
| New Process Co.                                               | 57,329,000                                | 64,006,000    | 11.6     |
| Metropolitan Life Insurance Co.                               | n/a                                       | 61,000,000    | —        |
| Hanover House Industries                                      | 40,000,000                                | 48,000,000    | 20.0     |
| Columbia House (CBS, Inc.)                                    | 35,000,000                                | 37,154,000    | 6.2      |
| Rodale Press Inc.                                             | 28,847,000                                | 37,154,000    | 28.8     |
| Colonial Penn Group                                           | 28,100,000                                | 35,000,000    | 24.6     |
| Grolier Inc.                                                  | 27,700,000                                | 30,000,000    | 8.3      |
| Source: Direct Marketing Assn.                                |                                           |               |          |

Telemarketing is finding an enthusiastic following in the business-to-business sector. This is because an office call by a salesman now costs more than \$200, explains Richard S. Hodgson, president of Sargeant House, which is a direct marketing consultancy

based in Westtown, Pa. Hodgson also finds that co-op mailings and card decks can be used to cut costs, but he cautions that these devices do not "appear to be efficient for higher-priced items."

All options are being considered by

## A conversation with Hugo Quackenbush

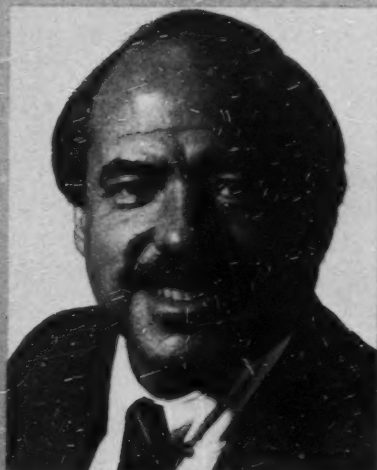
*This question and answer report is with Hugo Quackenbush, senior vice president, Charles Schwab & Co. Inc., San Francisco, the largest discount brokerage in the country.*

### On Schwab's growth:

Charles Schwab started the firm in 1971 with \$3,000 and we now have gross revenues of \$150 million. The only kind of advertising we have used has been direct response. We will spend about \$12 million in 1985. We have not decided the 1986 budget as yet, but I expect we will spend at least 20% more for direct marketing, some of that attributable to higher costs.

### On using direct mail:

After a year of testing, we initiated our first-scale campaign in February. The expansion and improvement of our computer facilities made it cost-effective.



Previously, it would not have been productive in relation to money spent on print advertising. Increased postal rates would have been important if we looked upon direct mail as a stand-alone instrument. We now mea-

sure our costs in terms of the entire budget and the results we get. We also have established an image and opened branches in so many locations — the latter an important factor in justifying any direct mail costs. Standing by itself, any aspect of our marketing program might not be cost-effective.

### On how to evaluate:

We work on the basis of the potential of the customer. We are building an on-going business — not making a \$29 sale. We measure costs in terms of possible returns over the long range, making targeted lists so important. We are affected by securities market conditions and they affect our promotional efforts. However, we always continue to advertise in our basic media — such as the *Wall Street Journal* — even when the market is dull. We tested telemarketing this year and plan to venture into that area. It is expensive, but with direct mail, it seems worthwhile.

major direct marketing advertising agencies. Dianne Edleman, vice president and creative director of Ogilvy & Mather Direct's Atlanta office, states that rising costs have already affected consumer accounts' direct-mail budgets which have been cut in favor of other alternatives. "In one case the cost of the extensive use of direct mail for a company with more than 1,000 branches was found to be prohibitive," she describes. "We have been able to make use of the alternatives and create a cost-efficient campaign." In this instance, the agency put together a package that included direct mail, newspaper ads, billboards, mall displays, "take ones," and door hangers.

Direct marketing is flexible because it is "so cost-sensitive," emphasizes Edleman. "There is almost an immediate measurement of expenditures against returns." Image advertising cannot be measured as easily, she adds.

Rapp & Collins, Inc. is also looking into available direct marketing options. Michael F. Colavito, executive vice president, chief financial officer and general manager of the New York-based agency, notes that "telemarketing is the most recent and biggest hot area. With direct-mail costs so high, we are once again looking more closely at newspaper ads and broadcasting. Co-ops mailings also are being considered, depending on the account." Most

of the clients using co-op are in magazine circulation promotion.

Roberta Maneker, vice president at the Direct Marketing Association, notes that more and more clients are trying other direct marketing techniques. "In the face of rising costs, direct marketers are exploring use of more targeted mail. They also are continuing to explore various techniques to improve response rates," says Maneker. Wayne F. Peak the president of Media Services Inc., a direct marketing printer, is in agreement. Except for very large drops, he says, direct mail "will continue to increase" because it is still the cheapest mode of marketing.

*Jerrold Ballinger*

## Working Budget for Sample Direct Marketing Mailings—1984 (Approx. Net Quantity, 100,000)

### A. CREATIVE

|                                   |                   |
|-----------------------------------|-------------------|
| 1. Preliminary roughs and dummies | \$ 200.00         |
| 2. Copy, including revises        | 2,750.00          |
| 3. Tight comp. layouts            | 550.00            |
| 4. Contingency reserve            | 350.00            |
| <b>TOTAL</b>                      | <b>\$3,850.00</b> |
|                                   | (6.3%)            |

### B. ART & PREPARATION

|                                              |                   |
|----------------------------------------------|-------------------|
| 1. Mechanical art & preparation              | \$ 900.00         |
| 2. Typography, including AAs                 | 1,200.00          |
| 3. Repros, pos. prints, reading copies, etc. | 175.00            |
| 4. Line illustrations (7)                    | 210.00            |
| 5. Photography                               | 800.00            |
| 6. Model fees                                | 350.00            |
| 7. Color separations (2)                     | 900.00            |
| 8. Colorkey proofs                           | 300.00            |
| 9. Stripped-in print films                   | 360.00            |
| 10. Contingency reserve                      | 1,000.00          |
| <b>TOTAL</b>                                 | <b>\$6,195.00</b> |
|                                              | (10.2%)           |

### C. PRINTING PRODUCTION

|                                                                    |                    |
|--------------------------------------------------------------------|--------------------|
| 1. 4-pg. litho let., 8½" x 11", 2 colors*<br>(105M @ \$21/M)       | \$2,205.00         |
| 2. 16-pg. booklet, 5½" x 8½", 4 colors*<br>(105M @ \$63.60/M)      | 6,678.00           |
| 3. Reply card, 3½" x 5½", 2 colors<br>(105M @ \$11.50/M)           | 1,270.50           |
| 4. BRE, #74, one color (105M @ \$10.70/M)                          | 1,123.50           |
| 5. Outer env., 6" x 9", 2 color, cello wind.<br>(105M @ \$43.23/M) | 4,539.15           |
| 6. Contingency reserve                                             | 2,000.00           |
| <b>TOTAL</b>                                                       | <b>\$17,816.15</b> |
|                                                                    | (29.3%)            |

\*Folded NOTE: Freight charges included

### D. MAILING LISTS

|                                              |                   |
|----------------------------------------------|-------------------|
| 1. Mailorder respondents (tape) 70M @ \$85/M | \$5,950.00        |
| 2. Active magazine subs (tape) 45M @ \$55/M  | 2,475.00          |
| 3. Contingency reserve                       | 1,000.00          |
| <b>TOTAL</b>                                 | <b>\$9,425.00</b> |
|                                              | (15.5%)           |

### E. COMPUTER PROCESSING

|                                              |                   |
|----------------------------------------------|-------------------|
| 1. Reformating, data conversion, etc.        | \$ 350.00         |
| 2. Merge/Purge (115M @ \$9.25M)              | 1,063.75          |
| 3. Code and run 4-up labels (100M @ \$3.50M) | 350.00            |
| 4. Reports & directory printout              | 175.00            |
| 5. Contingency reserve                       | 400.00            |
| <b>TOTAL</b>                                 | <b>\$2,338.75</b> |
|                                              | (3.9%)            |

### F. LETTERSHOP PRODUCTION

|                                                          |                   |
|----------------------------------------------------------|-------------------|
| 1. Insert, label, sort, mail, etc.<br>(100M @ \$19.85/M) | 1,985.00          |
| 2. Affix bulk rate stamps (100M @ \$5/M)                 | 500.00            |
| 3. Audit & pull samples (100M @ \$1.75/M)                | 175.00            |
| 4. Contingency reserve                                   | 250.00            |
| <b>TOTAL</b>                                             | <b>\$2,910.00</b> |
|                                                          | (4.8%)            |

### G. ALLOCATED FEES

|                        |                 |
|------------------------|-----------------|
| 1. Ad Agency           | \$5,000.00      |
| 2. Consultant          | 1,200.00        |
| 3. Contingency reserve | 1,000.00        |
| <b>TOTAL</b>           | <b>7,200.00</b> |
|                        | (11.9%)         |

### H. POSTAGE

|                   |             |
|-------------------|-------------|
| 1. 100M @ \$109/M | \$10,900.00 |
|                   | (18.0%)     |

**BUDGETED GRAND TOTAL \$60,634.90**  
(100%)

Budgeted Total without Cont. Reserves = \$54,634.90

Cost-per-M range, high/low = \$606.35/M - \$546.35/M

Source: Shell Alpert, direct marketing cost consultant

*Continued from page 71*

And how. Morgan-Grampian Publishing Co. now offers six-and-more-time advertisers discounts based on the pages they ran with competitors this year, and Cahners Publishing Co. will waive rate hikes for \$10,000-plus advertisers who promise to raise their ad dollar volume 10%.

Many publishers of smaller, more tightly focused books are eyeing direct mail as a specialized-marketing competitor, just as they do other magazines. They ought to be concerned, say planners: At last report at year-end 1983, according to the Direct Marketing Association, business-to-business direct mail was a \$19 billion industry, growing at a rate of \$3-4 billion a year. Bill Mackey, vice president and media director at Rumrill-Hoyt, Inc., reports

### **Some are down to four-time schedules where six-time used to be the minimum.**

that he's put more clients into direct-mail campaigns in recent years, especially those companies whose markets yield isolated segments with high potential.

Even in the medical marketplace, where drug profits are up 9% and new-product advertisers are starting campaigns by springing for multi-page insertions, rising costs are breeding business-press competitors. That's the word from Steven Sorkenn, senior vice president for business development at Medical Economics Company, who sees more drug promotion money going to direct mail and "external house-order properties." One popular new medium, he says, is single-sponsored publications produced expressly for advertisers.

There are still plenty of traditional business press-concentrated advertisers who just hope for lower rates. But JWT's Bert Peller isn't so sure lower rates are a ticket to thicker books. "If you halved the ad cost of every business magazine," he challenges, "do you really think you'd get many more pages? Advertisers, I think, are prepared to move at a given pace."

*Fred Pfaff*

*Continued from page 82*

Pages usage. The study is being undertaken by Statistical Research, Inc.

The initial findings, based on 2,960 telephone interviews made during the first quarter this year, discovered that 18.6% of adults used the Yellow Pages on a typical day and more than half, 55.8%, referred to the Yellow Pages during a typical week.

Smykla says further research will develop information on Yellow Page usage by specific product-service categories and demographic variations in usage according to sex, age, education and income.

The system under which national advertising gets into the books uses a network of authorized sales representatives, or ASR's, which place all national advertising.

Although ASR's operate much like radio or television rep firms, there is an important difference. Southwestern Bell's Jennings explains: "We don't have any contractual relationship with the advertiser. The contractual relationship — what they ordered, whether they got it and who they pay — is not with us. It is with the ASR. There is a legal responsibility between those two and then the ASR has a fiduciary responsibility to us because they are selling space in our directory."

The ASR keeps the advertiser and agency a step away from the publisher and the extra step causes some problems to advertisers like Mary Kay's Hewlett.

She complains that direct contact between herself, the advertiser, and the publisher is difficult, if not impossible. "There are no industry-wide policies and procedures, so we never know when something is going to hit us from the back door, something that we had no way of knowing up front was going to happen," she says.

Hewlett also cites inconsistencies in the way ads are printed and the lack of any method for publishers to make good on mistakes and omissions. "I have heard of some publishers issuing corrected sheets, but no one knows who is doing it and it certainly isn't a majority policy," she says.

Frank of the agency association says

some efforts toward standardization are being made by publishers. "Each of the seven regional operating companies is striving for standardization," he says. "Ameritech, which is a combination of the Bell companies in Ohio, Michigan, Indiana, Wisconsin and Illinois, is making an effort to standardize those five companies' directories." Jennings isn't optimistic about achieving industry-wide standards.

"The 138 publisher members of NYPSA," he says, "have their own specifications, their own standards, front-end contracts, photo-composition systems and so forth. Back in the days when AT&T owned the 20 or so largest publishers, we couldn't agree among ourselves who was going to change their systems to bring about standard-

### **It's clear that Yellow Pages have come a long way as a national medium.**

ization. It's an important issue we need to work on, but it's going to be a tough sale because it will mean heavy investment for some, if not all, of us in systems and procedures and printing specs and standards."

Just as there has been a proliferation of directories and an increase in national advertising since the AT&T breakup, so too has there been a growth in the sale reps and agencies that bridge the gap between the two. Frank, in addition to his duties with NYPSA, also runs his own agency, Telephone Directory Advertising, Inc., in Cincinnati, which he reports does annual billings of about \$5 million in Yellow Pages business. He declined though to name his clients. "If I do, everybody's going to go after my business."

It seems clear that Yellow Pages have come a long way as a national medium and that they still have a way to go. NYPSA's Smykla says he considers Yellow Pages "a fledgling in the advertising business." And Hewlett is optimistic that competition will help the advertisers over the next few years. "Yellow Pages," she says, "is definitely going to become a more advertiser-influenced medium."

*Bill Dunlap*

Continued from page 48

Roganti complains that "Madison Avenue's wanting to know about quantifiable data is based on their 25 or 30 years of unfortunate misunderstanding of the television medium. Advertisers should understand that they are buying cable not for ratings but because it delivers an audience against whom no one else delivers. The people who recognize that are the ones who are franchise holders." And he rather pointedly adds that "on MTV or VH-1, these advertisers are treated accordingly in terms of ad charges."

While MTV is covered by Nielsen meters, VH-1 has not yet hit the 12.7 million household level necessary for Nielsen ratings. Getting advertisers to buy time on an unrated program is not an easy task, says Roganti. "We ask prospective clients for VH-1 what they are waiting for before they buy time," relates Roganti. "If their answer is Nielsen information, we tell them that

once rates are quantified, we can affix costs that may well be in excess of what they would have been if they had taken a chance and come on as a franchise holder. The same people who took a chance on MTV and cashed out are the ones who are jumping onto VH-1." These advertisers include Procter & Gamble and all the top auto companies, lists Roganti.

ESPN's vice president of sales, Jack Bonanni, says renewals and new entrants to the networks' ad roster (Chevy, IBM, Anheuser-Busch, and new client TWA) boosted network overall billings up 25% over last year. "CPM's reflect increases in our subscriber base, which is growing at about 400,000 a month, which is slightly higher than cable industry growth overall," says Bonanni. He argues that "ESPN can and does deliver significant schedules to advertisers for approximately half of what they are paying in the national sports market-

place in terms of CPM's." ESPN just picked up the National Hockey League; got exclusive rights for the next America's Cup; and started wrestling programming in August prompted by the high ratings that sport achieved on the Turner and USA Networks.

CNN and CNN/Headline CPM's are increasing, says John Barbera, CNN's senior vice president of sales. That hike is tied to network news increases of about 10% to 12%. The channels represent 15% of all viewing of national news, he claims. "However, the entire industry is bloated with inventory and that allows advertisers to drive efficiencies down," he adds.

Cable is indeed a buyers' market, still purchaseable at a 25%-50% discount over broadcast. Dancer Fitzgerald Sample senior vice president Beverly O'Malley sees few if any increases in CPM's since the competitive environment has stepped up this year. "It's tougher on the street as cable net-

**Cable TV Network Advertising Revenues**

| Network  | Estimated<br>1984 Ad<br>Revenue<br>(mil) | Projected<br>1985 Ad<br>Revenue<br>(mil) | Estimated<br>Average<br>1984 Subs<br>(mil) | Projected<br>Average<br>1985 Subs<br>(mil) | Estimated<br>1984<br>Revenue<br>Per Sub | Projected<br>1985<br>Revenue<br>Per Sub | Projected<br>1984-1985<br>Revenue<br>% Gain |
|----------|------------------------------------------|------------------------------------------|--------------------------------------------|--------------------------------------------|-----------------------------------------|-----------------------------------------|---------------------------------------------|
| A&E      | \$1.5                                    | \$5.5                                    | 6.0                                        | 14.0                                       | 1.25                                    | 3.93                                    | 207.7%                                      |
| BET      | 2.5                                      | 4.5                                      | 6.4                                        | 9.5                                        | .39                                     | .47                                     | 80.0                                        |
| C&N      | 28.0                                     | 42.0                                     | 25.1                                       | 29.0                                       | 1.12                                    | 1.45                                    | 129.5                                       |
| CNN      | 42.0                                     | 56.0                                     | 27.8                                       | 34.6                                       | 1.51                                    | 1.62                                    | 33.3                                        |
| ESPN     | 56.0                                     | 72.0                                     | 32.1                                       | 36.9                                       | 1.81                                    | 1.95                                    | 7.7                                         |
| FNN      | 6.7                                      | 10.5                                     | 14.0                                       | 19.8                                       | .48                                     | .53                                     | 56.7                                        |
| HEADLINE | 6.0                                      | 8.0                                      | 12.1                                       | 17.7                                       | .50                                     | .45                                     | -10.0                                       |
| LIFE     | 18.0                                     | 26.0                                     | 18.6                                       | 25.8                                       | .97                                     | 1.01                                    | 44.4                                        |
| MTV      | 62.0                                     | 83.0                                     | 21.3                                       | 26.4                                       | 2.91                                    | 3.14                                    | 7.9                                         |
| NICK     | 6.0                                      | 8.5                                      | 18.0                                       | 24.8                                       | .33                                     | .34                                     | 41.7                                        |
| TNN      | 18.0                                     | 28.0                                     | 15.4                                       | 23.5                                       | 1.17                                    | 1.19                                    | 1.6                                         |
| TWC      | 7.0                                      | 11.0                                     | 13.3                                       | 18.6                                       | .52                                     | .59                                     | 57.1                                        |
| USA      | 38.0                                     | 49.0                                     | 24.5                                       | 30.5                                       | 1.55                                    | 1.61                                    | 3.9                                         |
| VH-1     | n/a                                      | 7.0                                      | n/a                                        | 3.5                                        | n/a                                     | 2.00                                    | n/a                                         |
| WTBS     | 146.0                                    | 165.0                                    | 30.8                                       | 35.5                                       | 4.74                                    | 4.65                                    | -1.9                                        |

Source: Reprinted with permission of Paul Kagan Associates, from Cable TV Advertising Newsletter, March 1985.

works have numbers to sell," she notes. "For that reason we see CPM's for several buys at the same as they were last year." O'Malley says cable nets are "becoming more sophisticated in creating special programs for cable and in scheduling programs to create effective counterprogram schedules."

J. Walter Thompson's Kaatz also notes that cable provides the opportu-

nity for advertisers to buy within programs, rather than during breaks. "Advertisers spend a great percent of their ad money on station breaks between broadcast programming. In cable, most of the ads are within the program breaks so, particularly in light of zapping scares, advertisers have a better shot at the viewer through cable. You can creatively tie-in ads to cable pro-

grams which you can't do on broadcast programs."

The local advertising area began showing up as an important revenue source for MSO's and an opportunity for advertisers in 1983. That trend continues, with about 1,000 systems now reaching 60% of cable systems which are equipped to sell local ads or promotions. By Kagan estimates, leading cable operators in 1984 generated a record \$72.7 million in local advertising sales against a base of 13.3 million subscriptions, equaling \$5.49 per subscriber. In 1985, these same MSO's may break \$100 million against a base of 15.8 million subs reachable through local avails; that translates into \$6.92 per subscriber.

Group W's vice president of ad sales, Thomas McKinney, says 86 of his 130 systems now sell local avails, and account for 85%-90% of Group W's business. Profit margins on some systems are as high as 30%. McKinney promotes local avails' targeting of geographic and demo skews that could be of particular benefit to local stores.

Broadcast Advertisers Reports (BAR) shows that ad sales for the top four networks (CNN, ESPN, USA, and WTBS) were up an aggregate 21.6% in 1984 over the previous year. Spending by the top ten advertisers as indicated in the accompanying chart was up 16.7%. Top gainer was CNN, which posted a 31.5% rise in 1984; ESPN, 23.5%; WTBS, 19% and USA, 17.1%. P&G upped its cable ante nearly 60% last year, to \$21.2 million, becoming cable's biggest spender. Anheuser-Busch, ranked number-one cable spender in 1983, spent \$1.8 million less, or \$15.5 million on cable in 1984, placing second. Thompson Medical tripled its cable budget between 1983 and 1984, replacing General Motors at #9; AT&T upped its spending 23.9%, edging out American Home Products for the #10 spot.

It's clear from this review that cable still faces an uphill battle in convincing the ad community to accept their medium as an equal in the media mix. Modest cost increases and a more general reach, however, just may do the trick.

Judith Reitman



*"I know we've got all the answers, Ed.  
But where do you think we get them?"*



## Bangor EBI growth rate greater than U.S. rate

Between 1983 and 1984, Effective Buying Income in Bangor's 8-county market increased by 11.8 percent.

**Northern New England's largest daily newspaper**

Represented by Sawyer-Ferguson-Walker

**Bangor Daily News**  
*The Maine Choice.*

Sources: S&MM SURVEY OF BUYING POWER, 1984 and 1985.

Continued from page 20

Gottesman. The problem is less of a general economic problem than a "lack of big new product categories," he says. Gottesman points out that heavy advertisers like computer marketers have cut back now that their sales are slumping and that no other major area has stepped in to take up the slack.

Gottesman projects that for all networks, the revenue gain for the year should only be in the 3% range. He thinks ABC, already third in the ratings, "will have the toughest time of all. They could be flat to down. Advertisers are waiting to see what happens with their ratings and pricing." Still, Gottesman estimates that ad rates for tv should increase about 7% to 9% next year. While he thinks that cable and syndication will cannibalize networks' markets to a degree, Gottesman also adds that "long term they will bring more dollars to the pot than they take out."

**Ed Atorino, first vice president, Smith Barney Harris Upham & Co.:**

"The rate of revenue gains for the networks will be very small this year," says Atorino, who places it in "the 3%, or tops, in the 5% to 6% area." Atorino notes that with audience viewership of the networks on the decline, "advertisers are looking for alternatives . . . and there's syndication and independent station options, among others." Ad rates among the major nets, he figures, "should be up 7% to 8% at most."

Atorino also notes that many of the medium's biggest advertisers — beer, wine, electronic companies — are witnessing a slowing of growth in their own categories. Therefore, "the big companies are holding the advertising line," says Atorino. "The pricing may sound good, but the dollars just aren't there."

As for 1986, "it could be better, but not dramatically so," he says. "If the economy perks up we might have a pleasant surprise, but it hasn't been a great year for tv."

On the magazine side, Atorino sees a "mixed bag." He feels that magazine revenues should be up a total of "8% to 9% for the year, with ad rates up

6% to 8%. Magazines are up against the same falloff in beer and wine advertising that television is," notes Atorino, "but there has been a big shift by automobiles to magazines and away from tv." Among the strongest magazine categories, picks Atorino, are fashion, housing and women's books. Business magazines, he says "have been hurt by corporate cutbacks. And the big news magazines have been hurt by cutbacks in liquor and cigarette advertising."

Newspapers, in Atorino's view, are seen as "surprisingly solid." He projects ad rates in this medium to be up around 6% to 8% with revenues advancing 9% to 10% over last year. And in the key area of classified ads, revenues should be up well over 10%, he adds. But Atorino cautions that newspaper markets fluctuate greatly around the country. "New York is strong," he observes, "as is Chicago. But Dallas has been up and down and the West Coast has been bad."

**John Morton, newspaper analyst, Lynch Jones & Ryan:**

"Newspaper advertising rates should be up in the 5% to 7% range in 1986, with papers' revenue increases around 8%," figures Morton. Direct mail, considered by many to be a threat to papers' prosperity, "hasn't affected newspapers' profitability," finds Morton. "This is largely due to the improved efficiencies they have made in areas such as labor costs."

Another way in which newspapers have been able to fend off the direct mail challenge, points out Morton, has been by sending off their own pre-print material through the Post Office.



J. Morton



J. Fuchs

"Papers have been using second-class mail, which has been challenged by direct mailers, and which will be a big issue," he says. Direct-mail advertisers, who send out their own materials through third-class postage, would like to stop such direct competition. "It's a murky area," notes Morton. "To qualify for second class, a certain percentage of the paper mailed has to contain news, and a certain percentage of the circulation has to be paying for the paper."

In general, the bigger papers have been able to keep their ad rate increases above the industry average. For example, "The Wall Street Journal's rate is up 9.5%, despite soft circulation gains," says Morton. "And USA Today has succeeded beyond expectations. It has doubled its ad pages. It's still a long way from being a success," he cautions, "but it has cut its losses."

**Joseph Fuchs, vice president, media analyst, Kidder Peabody:**

"Newspaper ad rates will be up 7.5% in 1985, with revenues advancing about 10%," estimates Fuchs. "In 1986, rates should be up 8%, with revenues rising 10% to 12%."

Fuchs credits newspapers for having been successful in dealing with the direct mailers through "zoning and improved total market coverage. The newspaper industry continues to become much more aggressive in product segmentation."

In the field of magazines, Fuchs thinks that "the lack of special events this year has been very critical. There has been a falloff in electronic ads, which has also hurt." He finds it hard to make projections in the category, "with the economy as skittish as it is. Our assumptions about the economy may have been too bullish." Yet all in all, Fuchs is assuming that magazines as a whole will see revenue increases of 8% to 10% in both 1985 and 1986, with ad rates up around 8% in both years. "It's hard to really say, but I think that the big news weeklies with their large circulations will get the biggest juice, while monthlies will get the least and women's magazines should come in somewhere in-between."

Continued from page 41

### Syndication

Last, but hardly least, more advertisers flocked to syndication in 1985, spending an estimated \$600 million in the growing medium. And advertisers' fervor for barter shows no signs of cooling in 1986 as they use syndication to supplement their network television buys.

Leo Burnett, for one, is still keen on barter, doubling its syndication expenditures from \$60 million to \$120 million this year. But Burnett's Hadlock anticipates that prices will rise in syndication next year, "especially if there is a herd mentality out there as there seems to be with barter."

Just how successful syndicators will be in their efforts to charge more is in question. This is because syndication automatically has a ceiling imposed by rates from the networks. The medium's appeal stems from its pricing, which is still 10%-20% below network costs. Hadlock warns though that programs like *Fame* and *Wheel of Fortune* are approaching network price tags. According to Hadlock, *Wheel of Fortune* has the highest unit cost while *Fame* has the highest CPM.

Meanwhile, syndicators lament that their product is undervalued. "Agencies have us in a position where they automatically expect us to deliver 20% cheaper than the networks, and that is

not fair," says Ric Levy, president of Camelot, which is the sales arm for King World, which syndicates *Wheel of Fortune* and *Jeopardy*. "Some of our product has better clearance than network fare," he charges.

For example, Levy says that *Wheel of Fortune* has a 99% clearance rate. He further adds that since October, the show has been pulling an average 18 rating, higher than many network shows. "But, we don't get \$100,000 a

### Caution is the key word in discussions with media directors regarding network television costs for 1986.

spot like the networks do. We can only command \$80,000 a unit," he complains. Levy further argues that advertisers fail to see syndication's major strength. That is, since syndicated shows run at different times in different markets, the networks find it impossible to counterprogram against any given title. And that is clearly a strong, competitive selling point for syndicated fare, he points out.

In terms of pricing for next year, Levy predicts that costs will vary according to each show. First, there's what Levy calls the "A level." These are the established shows which have

high station clearance, the top stations in the markets, and pull good ratings. "These shows, like *Fame*, *Entertainment Tonight*, *Wheel of Fortune*, *Jeopardy*, *Donahue*, and *Lifestyles of the Rich & Famous* are pushing toward network comparability, with costs running about 10%-20% below network prices," Levy explains.

Levy's "B level," will have a much lower CPM because the clearances are not as high as the A level, or if the shows have a high clearance, they have a weak station lineup. Levy lumps shows like the ad hoc movie packages, the not yet launched *INDAY*, *Seeing Stars*, *Let's Make a Deal* and *Greatest American Hero* into that group. The "B" programs are much more negotiable, Levy advises.

Finally, there's Levy's "C level," where advertisers will find even more bargains. Levy places highly targeted vehicles with low clearances, such as *The Wall Street Journal Report* into that group.

At LBS Communications, chairman Henry Siegel guesses that advertising costs in syndication will remain pretty constant next year because "more product is out there than ever before." Naturally, there will be exceptions: LBS's successful show *Fame* just underwent an increase in price — but Siegel reassures, under 10%.

Marianne Paskowski

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Greater  
South Bend  
Area

# South Bend Tribune

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According to a leading ad agency's Senior Vice President, Media, "Some cities may have been overworked as test markets...and could have become jaded...and therefore display atypical reactions."

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## RADIO

Continued from page 54

vertising budgets for some brands might have been cut, and ad agencies are "trying to get more for their money."

### Network outlook

The fledgling Radio Network Association's new executive director, Bob Lobdell, reports that in the fourth quarter of 1985, radio networks will command an average cost per point of \$1,925 for programing aimed at the 12-24 demographic. The 18-34 demographic will cost about \$1,900 per point while the 25-54 age group will range around \$1,850 per point.

Based on these composite figures, Lobdell projects that, for 1986, networks will be asking a \$2,100 cost per point for teens/young adults 12-24, and \$2,000 for the 18-34 and 25-54 age groups.

Historically, network radio rates began to escalate in 1975, and in the last three years, rates have gone up well over 100%, observes Hal Katz, executive vice president of Vitt Media International, a buying service. According to Katz's estimates, three networks alone, ABC, CBS and NBC, sold a total of 123,049 commercials in 1979 with revenues at \$172 million. But by 1984, while the number of commercials on the three networks increased slightly, the revenues skyrocketed to \$270 million, an increase of 57%.

Katz, for the short term, is expecting a significant increase in radio rates for the fourth quarter 1985 where cost per point of some networks targeting women 18-49 will hit almost \$5,000, "putting them in the range of some network tv."

Katz also identified two factors which might influence network radio rates in the coming year. Since he thinks inventory on the networks is in rather short supply, he would not be surprised if the networks decided to expand inventory by either creating new targeted networks or by launching new programing on existing networks. If that came to pass, it "could have a leveling effect on rates as supply moves closer to demand," he advises.

But, demand for radio network time

## Weekend paper training: run in the Sunday Tulsa World.

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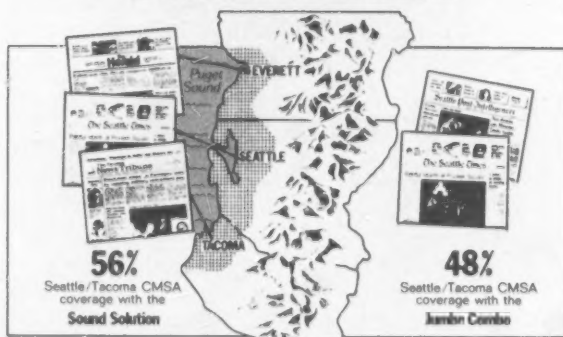
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### The Herald • The Tacoma News Tribune

See the Seattle Sound Unit in SRDS

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by influential packaged goods advertisers such as Procter & Gamble could bring other major advertisers to network radio, Katz reasons. If that occurs, demand would rise and prices would continue to escalate as they have for the last few years. "Procter & Gamble took a lot of network tv money and stuck it into radio this year, and when a big advertiser comes in like P&G, well, that means something," Katz believes.

Still, most buyers are not expecting hefty increases on the network radio front. At SSC&B, Gary Carr, vice president, associate director of network programing, feels that the overall supply of national radio time has "kept CPM's and unit costs from escalating as much as the dollars being spent in the medium have escalated." To Carr, network radio's supply curve has "hit its peak" because the majority of stations don't draw the type of large audiences preferred by national advertisers, and hence networks don't want them as affiliates. Carr predicts that network radio's revenues will grow by 8%-12% in 1986, but that network radio CPM's and unit costs would increase at a slower rate.

While business has been healthy for the radio networks, some of the players temper their optimism for 1986. "I would really like to be able to say that our rates are going to skyrocket," begins Lou Severine, vice president and director of sales for the ABC Radio

Networks, "but I don't really feel that," he admits.

Severine is looking for network sales to increase about 9-10% ahead of 1984, but thinks there is too much inventory in the marketplace right now.

Down the street at CBS, Steve Youlios, vice president of sales, thinks that the radio network supply and demand situation has stabilized. "A few years ago, the amount of inventory grew faster than the demand for it, but now demand has grown to come in line with the amount of inventory that's out there," he notes. Furthermore, Youlios says that CBS has no immediate plans to expand its programing or develop another network.

While Youlios predicts that there will be more ad dollars in network radio in 1986, "advertisers are not going to be up against tremendously higher rates." But he cautions buyers that in the coming year "it will be more difficult to place schedules on a last minute basis."

At J. Walter Thompson, Ron VonUrff, vice president and associate media director at J. Walter Thompson USA, reports that his department is "looking at network radio more to achieve high reach as well as targetability." He expects the agency's clients to increase their use of radio "substantially" in 1986. VonUrff expects costs to rise at about a 7% or 8% rate, citing the iffy economy for his relatively low forecast.

### Other costs

The cost of producing radio commercials is relatively low. Joy Golden, a radio commercial writer and president of Joy Radio Inc., insists that a high quality radio commercial costs no more than \$5,000 to produce, even in New York, including talent and studio time.

While low production costs are clearly a plus for the buyer of radio time, the low costs are not very attractive to agencies' creative departments, charge radio sales executives. "Most agencies make a profit like any other service industry, by marking up their labor," explains Jon Hirshberg, general sales manager at WEEI, Boston, an all-news station and client of CBS Spot Sales. "In the case of production, if I were given the choice of a 40% markup on a radio commercial vs. a 40% markup on a tv commercial, I think I know in which direction I'd go," he dryly notes.

McGavren Guild's Doyle concurs. "One suspects that the cost of production of other media influences the selection of radio in a negative fashion. Agencies, in the production of a tv commercial or a print layout, spend extraordinary amounts of money. Since they are paid on the creativity as well as the selection of media, there's a two-fold benefit for them," Doyle concludes.

Adam Buckman  
Marianne Paskowski

### Chautin: from page 52

target a specific demographic. On an unwired basis, with very few phone calls, you can get almost a national look at what is happening, what the avail situation is. Rather than going market by market by market, and having many people involved, you can do it with one negotiator, and the appropriate people at the rep firm.

From a buyer/negotiator point of view, unwired networks have made radio easier to deal with. By making it easier, radio helps the client because we can use it more and more. We can do it quickly and get the targets we

need. Throughout the years, the buyer's problem with radio was that it was very laborious. Unwired networks operate logistically as if you were making a network buy. You can get various unwired network proposals in very quickly with a lot of numbers and information. You can look at the country in a more organized fashion.

### Research:

One problem in radio is the lack of qualitative data. If you have a major market that has 25 or 30 stations of which five are the format you are looking for in terms of reach and frequency, you really have to listen to airchecks

and make some judgments about who you think is listening. Syndicated programing gives a station even more of a definitive personality.

### On advantages:

The selective targeting aspect of radio makes it attractive for many advertisers. Commercial broadcast tv has become broader. If you buy a spot in *Wheel of Fortune*, and it does a big reach number in the market, you are getting everybody, which is okay. But if you have certain narrow parameters, you really can target people who are listening. I think that's always been a strong point for radio.

(Continued from page 62)

time. Prior to the most recent increase, the last time postal costs rose was four years ago when they shot up around 20%.

Magazines that qualify for non-profit status could be in for a 30% hike this year as subsidies for these publications are phased back. In the past, these publications had not paid any attributable costs (the actual cost of mailing) to the U.S. Postal Service. However, under a 16-year period which ends in two years, these non-profit magazines are having to absorb additional attributable

which studies the paper market.

Still, because imports have primarily added supply to the lower-cost, super-calendered stock whereas most consumer magazines use higher-quality coated groundwood, the firm projects that consumer magazines' pricetag for paper will continue to rise. Next year, Strategic Futures is forecasting that coated groundwood will cost an additional 7% to 9%. The following year should bring an increase in the range of 7% to 10% for that type of stock, it predicts. The pricing and availability of uncoated free-sheet paper, the most expensive type of paper — the kind many of the "beautiful home" books use — should see a softening, according to Strategic Futures. The remainder of this year should see these paper supplies inch forward 2% to 3% in prices, while next year the projection is for no more than a 10% rise.

#### Negotiated rates

Although magazine costs are lessening, advertisers are jumping the gun on publishers by trying to negotiate rates downward. This trend is leading some to predict that publishers will start to push up ad rates to defend their bottom lines, in recognition of their growing need to bargain.

"Negotiated rates are causing magazines to ask for 8% increases instead of 5% to recoup revenues losses," observes Scullin. "It was easy as pie to see that negotiating like crazy would lead to this. The last thing we want to see is a magazine suffering economic losses because of our need for alternatives in delivering a message." He calls for more price/value sensitivity in setting rates.

Chesebrough/Pond's Campion also cautions that bargaining techniques could boomerang. "In principle, I believe that negotiation could get way out of hand, literally driving magazines out of business," he worries. However, like any shrewd advertiser, Campion adds that "if magazines can still be competitive and negotiate the rates, then we are all for it."

Advertisers and agencies agree that the practice of negotiated rates has been pretty much contained to highly

competitive categories such as the women's service books. They have also been limited primarily to discounts already written into the rate card such as volume discounts.

Another worry on the magazine horizon, however, is circulation erosion. Magazine publishers had been counting on newsstand buyers and subscribers for a greater chunk of revenues. The percentage of revenues derived

#### Consumer Magazine Sources of Revenue

|       | Advertising | Subscriptions | Single Copy |
|-------|-------------|---------------|-------------|
| 1970  | 64.33%      | 27.91%        | 7.76        |
| 1977  | 55.47       | 29.59         | 14.94       |
| 1978  | 53.69       | 28.67         | 17.64       |
| 1979  | 52.22       | 30.41         | 17.37       |
| 1980  | 51.14       | 32.67         | 16.19       |
| 1981  | 51.08       | 33.30         | 15.62       |
| 1982  | 50.19       | 33.32         | 16.49       |
| 1983  | 49.87       | 33.70         | 16.43       |
| 1984  | 51.97       | 32.97         | 15.12       |
| 1985* | 52.50       | 32.75         | 14.75       |

Source: James B. Kobak

\*estimate

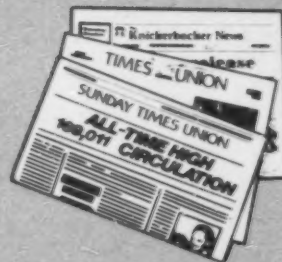
costs each year as part of a closing out of these subsidies. The exact amount of next year's subsidy to non-profits is being argued out by Congress, with an agreement expected by the cut-off date of October 1.

The paper shortage which haunted publishers the last few years, and which caused prices to rise over 25% during 1983 and 1984, seems to have abated. Indeed, paper cost consultant Fred Janaskis, with the American Paper Institute, forecasts that paper rates may even shrink. The reason? Imports have flooded the market to make up capacity shortages. "A number of producers have entered the market and they intend to stay whereas in the past, they came in when it was advantageous and then switched back to Europe," says Eric Edelmann, vice president with New York-based Strategic Futures,

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Source: 1985 Simmons-Scarborough

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NEW YORK'S CAPITAL LIKE  
New York's  
CAPITAL  
NEWSPAPERS**

**TIMES UNION**  
Mornings and Sunday  
**Knickerbocker News**  
Evenings  
Hearst Newspapers

from circulation has been inching up steadily in recent years until it accounted for half of total revenues last year. However, at that point, circulation revenues began to dip, slipping back to 1981's level of about 48%.

Indeed, several consumer magazines have resorted to giving away expensive premiums to shore up lagging circulation levels. Single-copy sales have declined from 83,817,099 in 1983 to 81,823,716 in 1984. However, subscriptions have increased by 10 million to 230,802,075 subscribers.

Advertisers are annoyed with publishers' games of costly promotions to bolster circulation levels. "Circulation costs have increased substantially because of the greater use of direct mail and subsequent increase in postal costs," says Drexler. "We also have seen an acceleration in the use of premiums, which are quite expensive." Often, readers gained through such gimmicks, note media directors, raise the level of circulation artificially.

These readers, they say, are of less benefit to an advertiser than the magazine's core audience.

Drexler points out that flat circulation, however, should cause out-of-pocket ad costs to stabilize. Ad price moderation will additionally keep CPM's in line, he reasons.

From an historical perspective, magazines' ability to transfer slightly more costs to readers through higher subscription and cover prices is a fairly recent development. Ken Noble, media analyst for PaineWebber, points out that during the 1960's, the magazine industry was losing money on circulation. Publishers tried to make up the difference by charging higher ad rates. Subsequently, magazines' share of the ad pie dropped. The lesson learned, publishers began their effort to get the consumer to shoulder more of the industry's operating costs.

Still, advertisers and their agencies are not satisfied that publishers are working hard enough to keep costs un-

der control. "I think their absolute costs are increasing, but I don't believe the full extent of their rate increases can be justified," says Mike Drake, senior vice president, director media planning and information services at BBDO. "I've heard a million times about the cost of paper. I thought paper represented about 15% of their operating costs. Even if paper were to go up 15% or 20%, that's one thing. I mean that's 1.5% to 3% of the bottom line. So I wonder how much of this can be justified."

"I think I'm willing to live with justifiable cost increases, but in a lot of cases, the numbers are just being thrown out and they're expecting us to accept them," Drake notes. Drake also points to last year's blockbuster year as a reason advertiser rates increases should be lower this year. "Certainly their increase in revenues far exceeded their increase in operating cost. So I find it difficult to listen to their sad stories," he adds.

Rebecca Fannin

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# Decisions

## Bridging the gaps at DMB&B

Hal Bay and Jack Bowen  
take on two management styles,  
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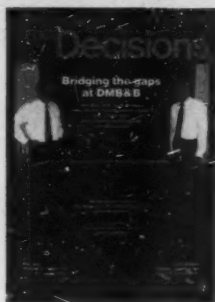
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- Weighing the value of  
the Magazine Research Council's  
"Gold Standard"

- Cigarettes:  
The brand report looks at  
a shifting market

**HAL BAY**  
DMB&B president and  
chief operating officer

**JACK BOWEN**  
DMB&B chairman and  
chief executive officer



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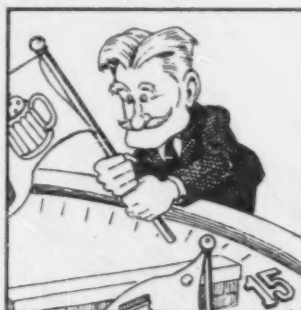
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# FUTURES

## More on the CD market

Compact disc fever will spread even faster than initially expected, says a study recently released by the *Newsweek's* market research department.

Heralded as the invention that will revolutionize the way people listen to music, experts say it is also the one that will sound the death knell for the turntable and vinyl record. Even at current prices, which average in the \$600 range, CD player sales are expected to double within a year. Some players have started to sell for as little as \$300 and market watchers say if and when more brands are offered in that range, purchases could jump 400%-500% by mid-1986. Depending on the scope and effectiveness of manufacturers' marketing/advertising programs, CD player sales should total at least 800,000 and could come in at 1.8 million by then.

And marketing will be a key to the dominance of the CD world. The study found that "substantial opportunity for the education of consumers exists." Though Sony and Pioneer are the CD brands consumers are most aware of, 50% of those asked didn't recall a single brand name.

Of the study's respondents, 44% said general magazine advertising is the most helpful media source of information on stereo equipment. But, of those who said they intend to buy a player, 61% said that magazines — either in the form of articles or ads — were their major source of information about audio gadgetry.

The study also found that the first wave of CD buyers will most likely be better educated and more affluent, and have a penchant for owning state-of-the-art equipment. Other vital statistics of these audio pioneers: male, 21-34 years old, classical music buffs, resi-

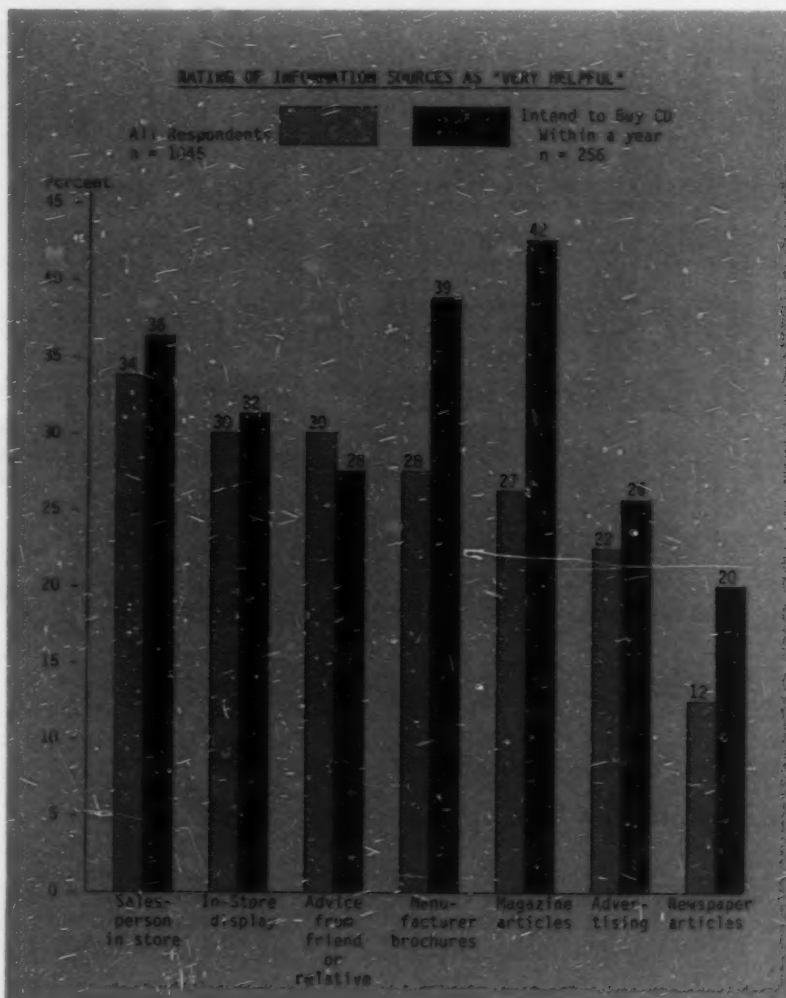
dents of the Northeast and West.

Likely buyers said that sound quality and hardware durability would be important factors in their purchase decisions, maintenance and convenience would be secondary.

Next to price, the biggest hurdle CD makers may face in selling their players is the degree of satisfaction consumers already feel with their current systems, according to the research. The vast majority of the stereo owners questioned — 73% — said they are "highly sat-

isfied" with their current systems; only 3% are dissatisfied. The upside of this, however, is that these folks won't let that satisfaction stop them: 57% said they intend to replace their stereo system or its main parts in the next five years.

For additional information on the compact disc market, as well as other areas of the home entertainment segment, see the brand report in the September issue of *Marketing & Media Decisions*.



# HOMEWORK

## Livable alternatives

The best U.S. metropolitan area to live in is Long Island's Nassau and Suffolk counties. This may be a surprise to Pittsburgh, which was cited by Rand McNally's Almanac as the No. 1 place to live, but *American Demographics* magazine says it's Long Island.

The magazine's rankings, compiled by geography professor, Robert Pierce,

are based on what Americans want most in their community — jobs, affordable housing, and safe streets. Less important to them are culture and recreation. The Rand McNally rankings weighted all of these qualities equally.

Two clusters of metropolitan areas win in the Pierce rankings — those close to the New York metropolitan area and those in the Appalachians.

## A sterling opportunity

Cadwell Davis Partners has discovered the importance of the stage of life between middle and old age — the extended middle years, or those between 60-75. President Frankie Cadwell revels in the marketing opportunities presented by this group, which is largely free of the responsibilities of middle age and the infirmities of old age.

From a national probability sample of 1,000 adults, aged 18 plus, she finds that getting old begins well after the 70th birthday. The study also shows that as a person ages, his definition of getting old is pushed progressively later. About 40% of those people queried over age 60 say old is over 75.

This prolonged sense of youthful vitality, finds the advertising agency, is largely due to sustained good health. Only 17% of people over 65 are unable to carry on major activities as a result of ill health. Furthermore, 90% of people over 65 show no decline in mental powers. Good health and improved emotional and financial conditions have led to a resounding sense of optimism regarding life expectancy — about two-thirds of the population expect to live into their 70's.

"This category is a choice one for marketers because the focus of adults in their extended middle years turns naturally away from the family and towards themselves," says Cadwell.

Herm Davis, creative director and chairman of Cadwell Davis Partners, adds that this new segment requires discrete treatment in how products are positioned and packaged. "In a departure from the past, advertising of new products should not address age, health fears or long-term planning for the future," he advises. "Instead, copy points should focus on active lifestyles. Also, packaging should be designed to address the minor infirmities of this market, specifically impaired eyesight."

### American Demographics vs. Rand McNally

These are the most livable and least livable metropolitan areas based on (in order of importance) economic growth, climate, crime rate, housing costs, education, health care, recreation, transportation, and the arts.

| THE TOP 25                         | AD's "Places Rated" rank |                          | THE BOTTOM 25            |                          |     |
|------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-----|
|                                    | AD's "Places Rated" rank | RM's "Places Rated" rank | AD's "Places Rated" rank | RM's "Places Rated" rank |     |
| Nassau-Suffolk, NY                 | 1                        | 6                        | Pine Bluff, AR           | 329                      | 328 |
| Raleigh-Durham, NC                 | 2                        | 3                        | Flint, MI                | 328                      | 293 |
| Norwalk, CT                        | 3                        | 9                        | Rockford, IL             | 327                      | 321 |
| Knoxville, TN                      | 4                        | 14                       | Yuba City, CA            | 326                      | 329 |
| Asheville, NC                      | 5                        | 36                       | Peoria, IL               | 325                      | 291 |
| Pittsburgh, PA                     | 6                        | 1                        | Benton Harbor, MI        | 324                      | 324 |
| Johnson City-Kingsport-Bristol, IN | 7                        | 45                       | Baton Rouge, LA          | 323                      | 311 |
| Charlottesville, VA                | 8                        | 33                       | Janesville-Beloit, WI    | 322                      | 307 |
| Louisville, KY-IN                  | 9                        | 8                        | Casper, WY               | 321                      | 322 |
| Boston, MA                         | 10                       | 2                        | Racine, WI               | 320                      | 283 |
| Philadelphia, PA                   | 11                       | 5                        | Pueblo, CO               | 319                      | 299 |
| Bridgeport-Milford, CT             | 12                       | 39                       | Albany, GA               | 318                      | 325 |
| Middlesex-Somerset-Hunterdon, NJ   | 13                       | 29                       | Decatur, IL              | 317                      | 309 |
| Reading, PA                        | 14                       | 80                       | Dubuque, IA              | 316                      | 305 |
| Rochester, NY**                    | 15                       | 8                        | Modesto, CA              | 315                      | 327 |
| Salem-Gloucester, MA               | 16                       | 56                       | Anderson, IN             | 314                      | 320 |
| Atlanta, GA                        | 17                       | 11                       | Dothan, AL               | 313                      | 326 |
| Danbury, CT                        | 18                       | 55                       | Sheboygan, WI            | 312                      | 314 |
| San Francisco, CA                  | 19                       | 4                        | Tuscaloosa, AL           | 313                      | 286 |
| New London-Norwich, CT             | 20                       | 70                       | Provo-Orem, UT           | 310                      | 246 |
| Harrisburg-Lebanon-Carlisle, PA    | 21                       | 22                       | Lawrence, KS             | 309                      | 269 |
| Scranton-Wilkes Barre, PA          | 22                       | 64                       | Aurora-Elgin, IL         | 308                      | 239 |
| Wilmington, DE-NJ-MD               | 23                       | 34                       | Mansfield, OH            | 307                      | 313 |
| Burlington, VT                     | 24                       | 18                       | Gadsden, AL              | 306                      | 323 |
| Stamford, CT                       | 25                       | 50                       | Anchorage, AK            | 305                      | 242 |

\*\*Ranking reflects corrections made to the climate data for Rochester, N.Y. in Places Rated.

# CHER IN US.

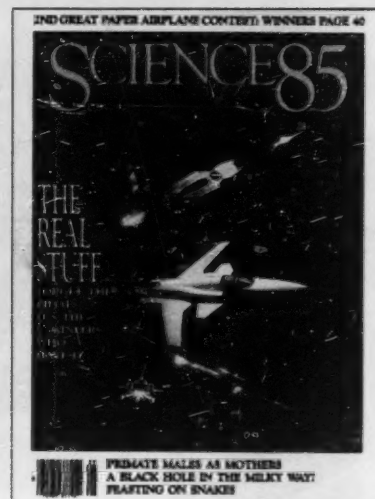
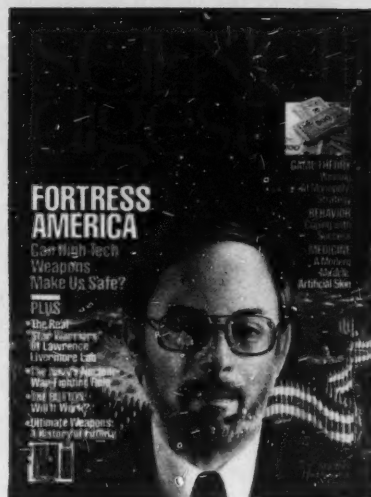


US magazine, July 1, 1985.

With more fun. More energy. More excitement.  
And more value. To find out more about the unique  
environment US can provide your advertising call  
Don Welsh at 212-818-9090.

**SOMETHING'S  
COME OVER US.**





The popular segment of the science field is redefining its goals.

future of popular science magazines on their reaction.

The new *Discover* has attracted enough new advertisers for publisher James B. Hayes to predict that gains made from the change will offset the losses experienced in the first two-thirds of the year. But it remains to be seen whether the magazine can maintain this momentum, and the recent departure of *Science Digest* publisher Gerald C. Hotchkiss for the publisher's seat at *50 Plus* is viewed by some as one more danger sign for the shaky field.

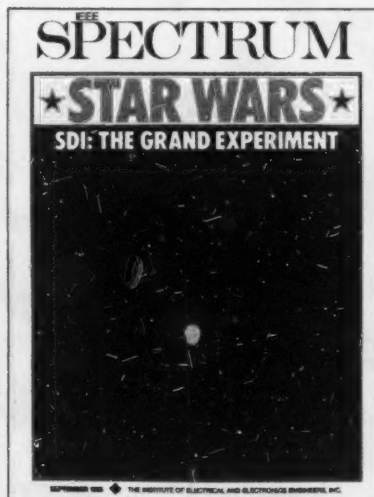
Greeted with "Eureka!" by the ad community when they first appeared five years ago, the popular science magazines in the middle of the category — *Discover*, *Science Digest* and *Science 85* — have been struggling ever since to find their niche between

hard science (*Spectrum* and *Scientific American*) and sci fi (*Omni*). Their circulations are strong, steady and upscale, but they have been a more expensive total-audience vehicle than demographic competitors and they lack a compelling overall reader profile. (Despite its title, Times-Mirror's *Popular Science* fits more snugly into the home mechanics category.)

Few, if any, ever forecast that the popular books would wind up in this black hole. When *Discover*, *Science Digest* and *Science 80* (now *Science 85*, from the American Association for the Advancement of Science) all launched about five years ago with sights set on a lay audience, hardly a question broke the fanfare in the media ranks. That overconfidence, publishers and analysts agree, lies at the heart of their troubles.

Not that the enthusiasm wasn't natural. By 1980, when agencies were forecasting for the decade ahead, the home audio market had swelled to almost 4 million units, home video was starting to bubble, and home computers were selling at the rate of about 2 million a year. Highbrow equipment was connecting so deeply with the current of American life that the popular science market seemed almost limitless. One fascination, publishers reasoned, would lead to another, and magazines that brought to Earth the wonder, meaning and mechanics of it all could only grow. At the time, *Discover*'s launch publisher Reginald K. Brack Jr. saw a target audience of 10-11 million households for popular science.

The very fact that Time Inc. and Hearst Magazines entered the market, says ex-*Science Digest* publisher



The technical and fantasy elements are confident right where they are.

Hotchkiss, was enough of a vote of confidence to send waves of enthusiasm down Madison Avenue. All for a theory. "The liquor and automotive and stereo and computer and consumer electronics people went bananas," remembers William R. Saunders, advertising director and associate publisher of *Spectrum*. "They just took it for granted that, 'Boy, we're going to get this great elite market of young, upwardly mobile people who are interested in science.'"

Since the popular arrivals were too new to qualify for syndication studies, recalls Tod Herbers, managing publisher of *Science* 85, agencies fit them into a market picture by looking at the successful *Scientific American* and sketching out a readers-per-copy (rpc) picture of the field. When syndication studies a year later showed rpc's that averaged about half the predictions, publishers encountered agency disaffection that has plagued them ever since.

"Evaluation in terms of total audience means that we look expensive, because we have lower rpc rates than magazines with lighter subject matter," says Herbers. While the 1984 Simmons study reports a 2.0 rpc for *Science* 85 and *Discover* attracts an estimated 2.6 rpc, only *Omni* and *Science Digest* came close to *Scientific American*'s 4.0 score, at 3.7 rpc and 3.4 rpc, respectively. Taken together, the science magazines fall short of the high-profile newsweeklies, which, as one of their main competitors for ad business, boast rpc scores of 4.5 or better.

Not only that, says Hotchkiss, concentration on total audience "invited a television mentality of buying. Size and reach took the place of frequency and influencing a limited group of people who have the real power and influence over sales." In that mass-media climate, the approximately 3.5 million reach of the category — which some publishers feel is a comfortable niche — looks small.

To make matters worse, advertisers weren't getting the kind of segmentation pitch that draws eyes to a magazine's market position and small, powerful audience. "There simply wasn't much positioning being done at all at the time," says one publisher,

who jokes that colleagues just plugged in the phones and the calls came in. "Publishers weren't going to correct exaggerations of their markets because they fed off them like crazy. They didn't make an effort to clarify the value of science magazines to advertisers. They didn't need to; they had publicity. The media hype, the media people, created the positioning."

Positioning is something the popular science books are scrambling to create

a costly blow to pages throughout the category. "It's tough to compete with the demographic editions in terms of merchandisability," he says. "Take computers. It's more impressive to tell chains which might carry your products that you ran in *Time*. The science magazines are too young to carry that weight."

But for Sylvia Voegelé, national media manager at Toyota Motor Sales U.S.A., Inc., the science magazine

Science ad pages and revenues, January-July 1985

|                     | Ad Pages |        |          | Ad Revenues |             |          |
|---------------------|----------|--------|----------|-------------|-------------|----------|
|                     | 1985     | 1984   | % change | 1985        | 1984        | % change |
| Discover            | 221.30   | 258.44 | -14.4    | \$3,392,193 | \$6,188,863 | -45.3    |
| Omni                | 401.19   | 424.49 | -5.5     | 6,556,850   | 8,045,202   | +5.8     |
| Science Digest      | 173.61   | 206.12 | -15.8    | 2,557,216   | 2,577,144   | -0.8     |
| Science 85          | 181.08   | 207.16 | -12.6    | 3,273,193   | 3,724,393   | -12.1    |
| Scientific American | 317.77   | 437.51 | -27.4    | 7,579,780   | 9,112,777   | -16.8    |
| Spectrum            | 679.25   | 643.17 | +5.6     | 4,171,855   | 3,538,959   | +17.9    |

Source: Publishers Information Bureau

— and they need it. As Kenneth Caffrey, senior vice president and executive director of media operations at Ogilvy & Mather, puts it, "The science magazines aren't what advertisers consider the more important magazines — the first or second category of titles that comes to mind." To Reg Ungberg, media group head at The Marschalk Co., the science magazines are a ve-

### One observer claims that publishers rode initial media hype, then found they had forgotten to position their magazines.

hicle to "look at demographically with the whole laundry list of upscale magazines, after the newsweeklies."

That doesn't surprise Herbers. Among other newsweekly advantages, he says, the weekly schedules are more conducive to late-breaking advertising in such volatile industries as computers, whose mass shakeout has been

question remains, "How do you differentiate?"

Media audience figures obscure the boundaries. The average *Scientific American* reader is 36.4, with a household income of \$38,929. That compares to an average age of 37.9 and household income of \$47,315 at *Spectrum*; an average age of 39 and household income of \$33,437 for *Science* 85; an average age of 36.1 and household income of \$31,562 at *Science Digest*; an average age of 34.3 and household income of \$35,000 at *Discover*, and an average age of 29.5 and household income of \$33,971 at *Omni*.

The answer might lie in the schism that's developing in CPM pricing as *Discover* looks to correct some past mistakes. *Science Digest* and *Science* 85 are reluctant to follow *Time* Inc. and lower their pricing, despite the example of an inflated rpc projection that undermined *Discover*'s CPM.

Fed with confidence by the immediacy of science, the sensation of *Omni* and the sellout rate of its own *Time*

Continued on page 144



Reynolds puts on the Ritz, complete with its own YSL designer label . . .

# Cigarettes: at match point

BRAND REPORT 126:  
Cigarettes

**W**here there's smoke, there's fire, and these days, there seems to be a whole lot of gray, curling wisps swirling about the U.S. cigarette industry. Consumption is down, the tax and regulatory pressures are up, and the marketing outlook is murky. Facts piercing some of that glumness are that profit margins are still on the right side of lucrative; productivity gains are being made; and there are still some 60 million smokers out there lighting up. The challenge for the \$28 billion industry (at retail) is to bring out new brands that will keep these smokers in the fold and at the same

time serve to recruit new ones.

That's a tall order, caution cigarette industry executives. "There's not a lot of expansion left here," sighs Martin Orlowsky, senior vice president of marketing at second-ranked R.J. Reynolds Tobacco Co. Or, as another marketer puts it, "What you're looking at is a very saturated industry with very

few marketing holes left. Our business grows by sneaking off with competitor's sales."

Consumption of cigarettes dropped for the third year in a row in 1984, down 1.1% from 1983's level of 593 billion cigarette units, according to the Tobacco Institute, a trade group. And that followed 1983's precipitous decline of 4.5%. Marketers say they expect overall consumption to stay flat or fall by about 1% a year in the foreseeable future.

In addition, consumers are switching brands less frequently, making it harder for the marketers of the 200+

**If you smoke  
please try Carlton**

. . . American Tobacco takes a minimalist approach with Carlton.

### Media Expenditure Top 15 Cigarette Brands—1984

| Rank | Brand                       | Company            | Total      | Consumer Magazines | Sunday Magazines | Outdoor    | Newspapers |
|------|-----------------------------|--------------------|------------|--------------------|------------------|------------|------------|
| 1    | Marlboro                    | Philip Morris      | \$84,608.0 | \$39,756.0         | \$1,291.0        | \$14,233.0 | 29,326.0   |
| 2    | Winston                     | R.J. Reynolds      | 40,924.0   | 15,299.0           | 3,803.0          | 13,139.0   | 8,683.0    |
| 3    | Salem                       | R.J. Reynolds      | 32,380.0   | 18,048.0           | --               | 13,025.0   | 1,307.0    |
| 4    | Kool <sup>1</sup>           | Brown & Williamson | 43,347.0   | 13,040.0           | 5,458.0          | 7,210.0    | 17,574.0   |
| 5    | Benson & Hedges             | Philip Morris      | 50,361.0   | 26,953.0           | 5,659.0          | 4,453.0    | 13,296.0   |
| 6    | Camel                       | R.J. Reynolds      | 47,603.0   | 22,156.0           | 2,554.0          | 12,253.0   | 10,640.0   |
| 7    | Merit                       | Philip Morris      | 64,210.0   | 32,475.0           | 5,053.0          | 7,873.0    | 18,809.0   |
| 8    | Generics                    | Liggett & Myers    | 164.6      | --                 | --               | 164.6      | --         |
| 9    | Phil Mall                   | American Tobacco   | 3,355.1    | 3,355.1            | --               | --         | --         |
| 10   | Vantage                     | R.J. Reynolds      | 61,368.0   | 35,597.0           | 6,609.0          | 1,408.0    | 17,754.0   |
| 11   | Kent                        | Lorillard          | 20,154.3   | 11,342.3           | 282.3            | 2,927.3    | 5,602.3    |
| 12   | Newport                     | Lorillard          | 20,122.2   | 9,694.9            | --               | 9,183.2    | 1,244.1    |
| 13   | Virginia Slims <sup>2</sup> | Philip Morris      | 30,613.0   | 18,245.0           | 1,953.0          | 6,160.0    | 4,127.0    |
| 14   | Carlton                     | American Brands    | 23,026.0   | 12,622.6           | --               | 8,825.8    | 1,577.6    |
| 15   | More                        | R.J. Reynolds      | 36,730.0   | 20,326.0           | 2,982.0          | 2,771.0    | 10,651.0   |

<sup>1</sup> spent \$65,000 on spot TV in 1984 to promote Kool Jazz Festival

<sup>2</sup> spent \$128,000 on spot TV to promote tennis tournament

Source: Leading National Advertisers; Media Records

kinds of smokes on the market to steal share away from one another. A flurry of switching took place about 10 years ago with the advent of low tar smokes. Now, less than 10% of all smokers switch each year.

Also causing concern is the tax situation. The industry has learned to its chagrin that it is not price or recession-proof. 1983's big 4.5% drop in consumption occurred when the Federal government doubled its 8¢ excise tax to 16¢ per pack in January of that year. A number of states have also jumped on the taxation bandwagon, boosting tariffs from 2¢ to, in the case of Massachusetts and Connecticut, 26¢. Cigarettes now average about \$1 a pack, but range from 79¢ in N. Carolina to about \$1.25 in some states.

Congress was scheduled to roll back the tax to its previous 8¢ level; that action has been postponed. Even worse is the scuttlebutt that Congress, egged on by anti-smoking forces, may consider upping the Federal tax to 32¢ to help offset healthcare costs.

Anti-smoking activists are becoming bolder. "No Smoking" signs are showing up in public places with increasing frequency. San Francisco recently passed a law allowing workers to veto smoking in the workplace. This

October, cigarette makers must put one of four new, much harsher warning labels on their packs. The labels which read, for example, "Smoking causes lung cancer, heart disease, emphysema and may complicate pregnancy," must be rotated every three months. Cigarette marketers say this quarterly printing charge will cost them \$12 million a year.

But it's the threat of product liability lawsuits — 28 are currently in litigation — that hangs heaviest, despite the fact that the industry has won every one of the nearly 200 suits filed against it over the last 30 years. Last September, a Federal court judge ruled that tobacco companies could not use mandatory warning labels that appear on packs and in ads as a shield against prosecution in liability cases. Though the companies refuse to discuss the matter publicly, privately, as one official says, "It makes us nervous." Analyst Gary Langbaum, at Northern Trust Co. says, "Logically speaking, I think they should win. But you have to ask, does logic have anything to do with it now?"

Whatever happens, Langbaum adds, he thinks the situation is "going to force the cigarette companies to change their imaging." R.J. Reynolds is trying

to do just that with a string of print ads, first seen in 1984 with the head, "Can we have an open debate about smoking?" Other ads deal with related topics: public smoking, smoking and fire safety, and an ad telling kids not to take up the habit at all. The ads are designed to bring the industry some good will and put some civility back into the debate on smoking.

Yet not all the news is harsh. Cigarette profit margins are rising and are currently in the range of 20%-30%. This is due to several factors. Cigarettes are a relatively low-cost item with a high rate of repeat purchase. There is very little cyclical to the business and little foreign competition. In addition, for all their complaining about the tax hike, cigarette makers are not averse to price hikes themselves, boosting them twice last year — 3%-4% each time. Another price increase is expected by January. And if Federal price supports on tobacco fall this year as expected, that would lower costs for cigarette companies.

The big six marketers are also taking a fresh look at every aspect of their marketing efforts. The industry had been very slow to segment with new types of products. That changed in 1980 when Liggett & Myers Tobacco

Co., a unit of Grand Metropolitan PLC, introduced generic smokes (they sell for about 25¢ less a pack). Since then a rash of new brands — including more generics, branded smokes at generic prices, mid-priced cigarettes, 25-per-pack lines, and even a super-premium (now in test from RJR) — have come to life.

And if the industry was slow to segment, it was loathe to engage in price wars. Now price promotions, in the form of coupons, rebates and discounts of up to \$2.50 per carton, are common.

The Federal Trade Commission reports that the industry spent \$2.7 billion on advertising in 1983, quite a hefty jump from the \$1.9 billion spent in 1982. Reynolds' Orlowsky suggests that with magazines targeting themselves to more upscale audiences, while recent studies show that the demographics of cigarette smokers are veering in the opposite direction, magazines might receive less in the way of cigarette ad dollars. "Cigarettes may not be as much of a given in the magazine medium as they are today," he cautions. Orlowsky, among others, points out that, with brand-switching declining, point of sale and price promotions are more essential than ever for promoting trial and simply moving cigarettes.

In 1982, cigarettes weighed in with more advertising dollars than any other industry. Cigarettes are now the third largest buyer of newspaper space, although they are down 6.9% from 1983 to \$232.5 million. Cigarettes' sales decline is part of the reason for that, as

# CONVENIENT!

## NEW 25's



No. 9, even after a 20-year slide.

is the slowing rate of new product introductions. But the industry's use of newspapers is still impressive and, says Hank Dain, vice president-national sales department of Newspaper Advertising Bureau, chances are it will stay that way for some time.

"The real strength of newspapers for an outfit like a cigarette company is the deeper penetration in a specific area you want to hit." Another reason for its popularity with cigarette marketers is the flexibility newspapers offer: "You can run several full pages at once or whack it up into half-pages or whatever. Magazines," he adds, "can give you four-color, but just a smattering of penetration compared to newspapers."

Most agree that promotions — point of sale, couponing and send-in offers — are getting more of the cigarette

marketers' attention than ever. Orlowsky, among others, points out that, with brand-switching declining, point of sale and price promotions are more essential than ever for promoting trial.

**Philip Morris**

"R. J. Reynolds is the innovator, but Philip Morris is the maximizer," says Ronald Morrow, vice president of research at Smith, Barney, Harris Upham & Co. "They can take an idea and make the most out of it." The company, says Kidder, Peabody & Co. analyst Roy Burry, "just lays in the weeds and then something comes along, and they take business away. How? They spend more money."

But observers say that PM is also paying a lot of attention to developing new products of its own. According to Emanuel Goldman at Montgomery Securities, the company wants to move aggressively into areas it feels weak in: non-filter smokes (which make up only 6.2% of the industry now); reduced price brands; ultra-low tar; king-size menthol; 120's. He also says the company "is embarking on a concerted effort" to bring its shelf space up to par with its share of sales. Other PM watchers say it is weak in the menthol segment, not having a free-standing menthol brand of its own.

Philip Morris took the No. 1 market position away from R.J.R. in 1983 and hasn't looked back since. It ended 1984 with a 35.3% share, a rise of .9% from 1983 (market share numbers are estimates by John C. Maxwell, managing director of Laidlaw Ansbacher). No

Serving The  
Greater  
South Bend  
Area

# South Bend Tribune

Test Marketing expert states:

## "SOUTH BEND AMONG 8 CITIES RANKED THE MOST AVERAGE OF THE AVERAGE"

According to a leading ad agency's Senior Vice President, Meza, "Some cities may have been overworked as test markets...and could have become jaded...and

therefore display atypical reactions. "And the census data show dramatic population changes in others. "As a result," he continued, "we dropped 17 cities

from our list of recommended test markets, added 18, and still name South Bend among the 8 cities we consider the 'most average of the average' — a sort of Middle America honor roll of test markets." For the facts and figures

that make South Bend the ideal test market for your product or service, write now or call for your copy of the South Bend Tribune's 1985 Market Data book.



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